the Freeman

Ideas on Liberty

JULY 1979

The Mythology of Energy

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Irvington-on-Hudson, N.Y. 10533 Tel: (914) 591-7230
Leonard E. Read, *President*

Managing Editor: Paul L. Poirot
Production Editor: Beth A. Hoffman
Contributing Editors: Robert G. Anderson
Bettina Bien Greaves
Edmund A. Opitz (Book Reviews)
Brian Summers

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Yale Brozen

The Mythology of Energy

THE WAR against the automobile and against private enterprise continues. This time, it appears in the guise of a quest for a reduced international payments imbalance and freedom from coercion by the Organization of Petroleum Exporting Countries. Propaganda almost as crude and just as untruthful as that used by the Allies in World War I is the major instrument in the current MEOW (Moral Equivalent of War) campaign for expansion of taxation and government power.

The campaign uses several myths in its attempt to sell Americans on ceding more of their freedom to the central government. Here is a list of the more blatant falsehoods accepted and propagated by the opinion manufacturing establishment.

1. The world will run out of oil in the 1980s.
2. The severe international payments imbalance is caused by the high usage and high price of imported oil.
3. An oil-rooted adverse payments balance is causing the dollar to depreciate, causing import prices in dollars to rise and, as a consequence, causing inflation.
4. We are vulnerable to an oil embargo by the Mid-East countries.
5. The gasoline shortages and long

Dr. Brozen is Professor of Business Economics, Graduate School of Business, University of Chicago, and Adjunct Scholar, American Enterprise Institute for Public Policy Research.

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lines at filling stations in late 1973-early 1974 were caused by the oil embargo in effect at that time.

6. We must reduce our vulnerability to an embargo by accumulating a one-billion-barrel stockpile of oil and by cutting energy usage.
7. The government must plough billions into government-directed energy research to save us from ourselves and from foreign powers.

One myth propagated up to the beginning of this year is no longer on the list because it has become so obviously false. It was argued that the shortage of natural gas could not be cured by price incentives and that price ceilings should be retained since the only effect of lifting the ceilings would be a "rip-off" of consumers. Nevertheless, price ceilings were raised by Congressional action (without a windfall profits tax on gas producers). The administration is now embarrassed by a surplus of natural gas. It is urging industry to use *more* natural gas.

Another discarded myth is that the coal and coal transportation industries would need special governmental assistance to meet our energy needs. This, too, has been rebutted by experience since coal price ceilings expired in 1974 (with no windfall profits tax on the coal industry). A coal surplus developed following the expiration of price ceilings. The coal industry is now crying for ploughing more tax revenues into research on liquification and gasification of coal.

Myth Number One. Let us take the myths still prevalent and examine each. Myth number one is that the world will run out of oil in the 1980s. Actually, it is unlikely that we will run out of oil by the 2080s. There is, in the free world today, a 36-year supply of proven reserves already staked out and producible at today's prices.

The number of years' supply of proven reserves is at the highest level in the history of the statistic. Traditionally, proven reserves have ranged from fifteen to thirty years at contemporaneous rates of oil use. Moreover, the statistic is only indirectly related to the actual amount of oil existing underground in the world, and even the direction of the relationship is unclear, because exhaustion of prospects produces a rise in price, and hence makes previously worthless reserves worth "proving."

How much more oil remains to be discovered that is producible at today's prices is unknown. Geologists' estimates range from a low of a twenty-year additional supply to a high of fifty years.[1]

Taking the lowest estimate, to-

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day's real prices need not change for the coming half century to induce a supply of petroleum sufficient to meet all demands. At prices 50 percent higher than today, producible reserves in sight more than double. It would become worthwhile to use the enormous shale oil deposits in Colorado, Utah, and Wyoming. Of the 1.87 trillion barrels of oil in shale, 600 billion are recoverable at the higher price. That is enough to supply us for another 100 years. There are also staggering reserves available in the Canadian Athabasca tar sands and the Missouri, Kansas and Oklahoma tar sands which would become economically workable at the higher price.

In addition, secondary and tertiary recovery of the oil left behind in oil pools already worked could more than double known and proved reserves. Generally only one-third of the oil in a pool is recovered. The other two-thirds is left in the ground because it is too costly to be worth recovering at today's prices. A rise in price would make a portion of the left-behind oil recoverable. At a higher price, we could produce as much oil in the future from the already known and abandoned fields as the total amount produced in the world's history to date.

Myths Number Two and Three. President Carter has urged the passage of a stand-by gasoline rationing program and Congress has passed mandatory automobile mileage performance standards on the ground that we must slow imports of oil to cure our adverse balance of payments and stop the decline of the dollar. *If auto energy use standards do anything to the balance of payments, it will worsen it, not improve it.*

If oil imports cause an adverse balance of payments or if the great increase in crude oil prices in 1974 were a cause of an adverse balance of payments, then Germany and Japan should be in much deeper trouble than we. They import *all* of their crude oil while we import less than half. They import all of their natural gas while we import only a small fraction. Yet their balance of payments is positive. While the dollar declined, the mark and the yen appreciated. The cause of the payments imbalance and the decline of the dollar is the string of unprecedented peacetime federal deficits since 1973.

The net result of the mandatory downsizing of the auto fleet to reduce oil imports will be more rather than less imports. An enormous capital outlay is required to do the downsizing job and to retool to produce the new models. Estimates of the cost, in addition to the usual model change costs, exceed $30 billion. That capital could save more

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energy if it were left available to invest in dry process kilns for producing phosphates and cement and for other energy conserving uses. The free market would do a far more effective job of allocating capital among alternative energy saving uses, including an appropriate rate of downsizing automobiles, than the government can or will do.

Myths Number Four and Five. Why did we have those long lines at gasoline stations in 1974? Was it because of the Arab embargo?

The reason for those long lines was because the Federal Energy Office allocated gasoline and gave orders to refiners as to what products they could produce. *All during the period of the embargo, our stocks of gasoline, crude oil, and other petroleum products in storage kept increasing.*[2] Crude oil was still being imported. Instead of coming from the Mid-East, it came from Canada, Indonesia, Venezuela, and Nigeria. Some came indirectly from Libya and other Mid-East countries via Curacao and the Bahamas.

The embargo made only a small difference in the volume of imports. The oil companies did a massive and heroic job redirecting world trade. Routing of oil was changed in some cases and sources in other cases. But the Federal Energy Office screwed up the works. It underallocated gasoline to metropolitan areas, such as Chicago, New York, and Washington, and it overallocated to rural areas. City residents wasted gasoline by driving far into rural areas to fill their tanks.

Are we subject to possible blackmail by embargo? The answer is a clear no! During the Arab embargo, we imported from other sources and indirectly from the Mid-East countries that were embargoing us. Libya knew its oil was coming to us, but as long as it was labeled as going elsewhere when it left Libyan ports, Libya was glad to get the revenues.

There are more alternative sources available today than there were in 1974. Mexico is now supplying us with growing amounts. Venezuela has 20 percent of its capacity shut down and available. Nigeria is a bigger producer now than it was in 1974. Dome Petroleum is starting full scale development and transportation out of the Canadian Arctic. China is now exporting oil.

Myth Number Six. We are now developing storage facilities and accumulating a one-billion barrel stockpile of oil, at a cost of $25,000,000,000, purportedly to make ourselves less vulnerable to any future embargo. The Arabs must be laughing themselves sick all the way to the bank as we turn over $15,000,000,000 to them for oil we are going to stick back in the ground

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(in old hollowed out salt domes).

Is it really necessary to accumulate a stockpile to reduce our vulnerability to an embargo? The answer is no! Many countries are willing to supply us if the Arabs cut us off, including some Arab countries if we cover up the fact that they are supplying us. (From the events of early 1978, we might judge the supply of Arab oil to be more secure than the supply of UMW coal. Perhaps we should question the administration's proposals to make ourselves even more dependent on coal than we are.)

There are less expensive ways of providing a ready reserve than building a stockpile. We could drill wells in our naval reserves, such as Elk Hills, and develop them to the point where they are ready to produce. The wells could be capped but ready to produce in case of need. There is no need to pump the oil above ground, develop underground storage, and stick it back into the ground. Let the oil remain in natural storage at no cost. Have the wells ready to go when the need arises. The cost would be far less.

Myth Number Seven. Finally, we come to the myth that the government must plough billions of dollars into energy research if the new technology is to be developed to provide the energy we need when oil runs out in the 1980s. First, let's recognize that a shortage is a business opportunity. If anything in demand is likely to run short, its price will rise. Anyone developing a substitute or an additional supply will find plenty of eager customers.

With the increase in the price of home heating fuels, suppliers began offering automatic damper controls which cut the use of fuel by 20 percent. When fuels were cheap, it was not economic to install automatic damper controls; they could not pay for themselves. The capital it would have taken to produce them was more productive in producing gas than in saving gas. Production of the controls would have been a waste of metal, plastic, and workers' time. These factors of production were conserved by the more efficient expenditure of capital on gas discovery and production.

As it became increasingly costly to produce gas, capital began to flow into damper controls where it could save more gas than it could produce. The investment now pays for itself.

The rise in the price of energy is inducing the production of energy saving equipment and of less energy intensive motors, engines, generators, cement kilns, furnaces, boilers, refrigerators, freezers, air conditioners, and water heaters. It is also attracting investment into private Research and Development (R&D) to develop alternative sources of energy, to develop

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techniques for secondary and tertiary recovery of oil from spent fields, and to improve methods of extracting oil from shale and tar sands. In 1975, oil companies invested $51 million in coal R&D, $38 million in developing methods for converting coal into synthetic fuels, $30 million in oil shale R&D, $9 million in tar sands R&D, $7 million in geothermal R&D, and $2 million in solar R&D.

Currently, private expenditures on energy R&D are near the $2 billion level. This may seem a pale effort compared to the $4 billion that the federal government is laying out on nuclear and solar research. But examination of past private and governmental research efforts suggests that we will get 100 times the return per private dollar in R&D that we get from the government dollar.[3] The federal government has laid out $4,200,000,000 on developing a liquid metal, fast breeder reactor.[4] It achieved so little that it is giving up the effort.

The private market does a superior job in allocating resources to their most productive uses, including choosing among alternative R&D programs, than the government does.[5] If the government wouldn't try to do so much, we would get more accomplished, and energy would be more plentiful than it is now. ⊕

—FOOTNOTES—

[1]"Oil and Gas Resources—Welcome to Uncertainty," *Resources* (Washington: Resources for the Future, March 1976); House of Representatives Committee on Interstate and Foreign Commerce, *Basic Energy Data*, 94th Congress, 1st sess., 1975; Peter Odell, "Are the Oilmen Crying Wolf Too Soon?" *The Guardian*, July 16, 1978, p. 9.

[2]Richard Mancke, *Performance of the Federal Energy Office* (Washington: American Enterprise Institute, 1975). Crude oil and petroleum product stocks rose by 85 million barrels during the embargo relative to preceding year stocks. p. 5.

[3]"Much of energy research and development activity, such as the aggressive coal gasification programs, falls in the category . . . [of] policies that have little social value and great social cost." Edward J. Mitchell, *U.S. Energy Policy: A Primer* (Washington: American Enterprise Institute, 1974), p. 72. Also see Price L. Petersen, *A Critique of Two Assessments of the Synfuels Commercialization Program* (Washington: American Petroleum Institute, August 8, 1977), p. 72.

[4]Brian G. Chow, *The Liquid Metal Fast Breeder Reactor: An Economic Analysis* (Washington: American Enterprise Institute, 1975), p. 13.

[5]John E. Tilton, *U.S. Energy R&D Policy: The Role of Economics* (Baltimore: Johns Hopkins University Press, 1974), p. 29.

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Walter B. Wriston

REPRESSING ECONOMIC NEWS

EVERY business has its hazards. People in the news business complain that one of their own special hazards is taking the blame for all the bad news in the world. And since much of the bad news nowadays frequently has something to do with governments, governments especially are often angry at the press. In fact there are about 90 countries in the world today whose leaders object to bad news so much that they have abolished the free press. They operate on the theory that if bad news is not reported, it doesn't exist.

Editors and publishers in countries where the press remains free recognize this attitude for the threat that it is. They combat it constantly by defending their right to publish the news as they see it, and also by reminding the public that the First Amendment is the very linchpin of our liberty.

To get blamed for acts you do not commit, or for the bad news created by somebody else, is a hazard that is not unique to the news business. It happens to bankers, businessmen, labor leaders and almost anyone else involved in handling money. And we in the business community are being treated to an especially strong dose of this misdirected anger right now.

The bad news that business has been reporting is inflation. The price of everything is going up, which is another way of saying that the value of our money is going down. Since only the government prints money, it does not like people being told that the value of its product is deteriorating. So we find government spokesmen traveling around the country telling people that the real villains in this inflation story are businessmen who are raising their prices or labor unions which are raising wages.

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This article is adapted from remarks by Mr. Wriston, Chairman of Citicorp, to the American Society of Newspaper Editors.

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Suppressing the Bad News

But rising prices do not cause inflation, they report it. When a government—any government—starts trying to eliminate inflation by controlling wages and prices, what it is really doing is asking all of us to suppress the bad news that it has printed too much money. The way to stop the bad news about the deteriorating value of our money, according to government, is to conceal this from the people by freezing wages and prices.

Prices and wages represent an essential form of economic speech; money is just another form of information. When the freedom of this economic speech is restricted, we are all not only penalized, we are misled. In (Federal Reserve) Governor Wallich's words: "Inflation is like a country where nobody speaks the truth."

Prices enable consumers to communicate with producers and tell them what they want or don't want. If prices are censored, or frozen, they cannot tell producers what goods or services people want or don't want to purchase. Examples abound.

When the government artificially restrained prices for natural gas, the price told consumers that this form of energy was relatively cheap and in ample supply. Believing what they heard, people built homes heated with natural gas. The same controlled price told producers that people don't want much natural gas—it was not in demand—and therefore they had no incentive to increase production. Everybody was being deceived and we all know about the results in the winter of 1976-77. People are often deceived also about the nature of money.

As a piece of paper in your pocket, money has no intrinsic value, it is worthless. Its only value consists in what it represents, which is a claim on a share of the world's goods and services. If the government increases the pieces of paper faster than the private sector can produce goods and services, then every piece of paper is going to represent a smaller claim on whatever people have to sell. The only way to keep that from happening is either to increase the production of something salable, or else slow down production of the pieces of paper.

The plain fact is that the reason we have inflation in this country is that since 1967 the government has caused the money supply to grow nearly three times as fast as the goods and services that can be bought with it. That statement can be fiddled with and footnoted until everybody forgets what they're talking about. But the bad news will not go away. And no amount or kind of wage and price controls can make the government's paper money worth more of the world's goods than

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the world is prepared to give for it.

Governments' ability to devastate an economy and blame it on someone else can never be overestimated. They don't even have to print their own paper. They have frequently managed to do it with gold or silver. Ancient Rome added cheap alloys to its gold coins and suffered inflation as a result. Spain had a monopoly on the riches of El Dorado—the precious metals flowing into Europe from Mexico and Peru formed the basis for an inflation that in the end destroyed the Spanish Empire.

Every time a new silver consignment arrived at Seville a ripple of price increases spread across Europe because there was suddenly more money with which to buy things. And because the effect was always felt first and strongest in Spain, that country continuously occupied top place in the inflationary table. Spanish costs became increasingly uncompetitive, and the Dutch got rich buying cheaper goods in the north and shipping them south.

The Spanish solution was to sink merchant ships and hang businessmen.

You can find the same story of unsuccessful repression of economic news being repeated all the way back to the Roman Emperor Diocletian, who may have coined the best name yet for government price controls: the *argumentum baculinum*, or the argument of the club.

What Diocletian could not accomplish with the Roman legions and Philip the Second could not do with the Spanish Armada, the Council of Wage and Price Stability now proposes to do with a staff of 233 civil servants. Once again we hear repeated the rephrasing of Diocletian's edict which began with a notable assertion, "Uncontrolled economic activity is a religion of the godless."

Whatever the government—any government—decides to call its price control methods doesn't really matter. Whether it's jawboning, incomes policy, voluntary guidelines, mandatory ceilings, or an economic police state, it all comes back to Diocletian's *argumentum baculinum*. All it means is that the government threatens to hit you harder later on if you don't behave after it hits you the first time. History demonstrates that once a government picks up the club, it finds it very hard to put it down again.

The American press would not tolerate for one moment an attempt by the government to suppress news of riots or political demonstrations on the grounds that it wants to "insure domestic tranquility." The press knows a threat to the First Amendment when it sees one.

Yet on the grounds of "insuring price stability," the government assumes the power to tell us what we can be paid for our labor and what

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we can charge for our products, and the only question asked by most of the press is: Will it work? That is the wrong question. The right question is: How does it affect individual liberty? Is not one of the most basic human rights the right of a person to sell his or her labor at what the market will bring?

There are ten amendments in the Bill of Rights, although sometimes it seems that the press is so busy defending the first one that it is hard to get equal time for the other nine.

Let me recall one of them—the Ninth Amendment—which few people ever read any more, let alone defend. It says: "The enumeration in the Constitution, of certain rights, shall not be construed to deny or disparage others retained by the people." Is something being disparaged when the government's chief inflation-fighter tells a group of businessmen, as he did recently in Chicago, that "We will, with a degree of enthusiasm that I suspect many of you may consider unseemly, identify the miscreants publicly"?

Qualifying as a Miscreant

A miscreant, according to my dictionary, is someone who is villainous, unscrupulous and devoid of conscience. And now all you have to do to qualify for that description, in the eyes of your government, is to insist on your right to decide what wage you're willing to work for, or how much to charge for whatever you're selling. I do not believe that was the kind of society the Founding Fathers had in mind, or one that many Americans will enjoy living in if it becomes a permanent condition—which it shows every sign of doing.

The government adopts monetary policies and fiscal policies which produce inflation in response to popular demand. Since there is no "Truth in Politics" law we must rely on the vigilance of the press to reveal the true costs of those policies. When we come to understand what is happening, I do not believe that Americans are ready to sell their birthright of individual freedom. But someone has to make it clear that the collision course between government price and wage controls and personal liberty is inevitable because, in the end, government allocation of economic resources requires force. Someone has to point out—and keep pointing out—that every time the tide recedes a little after one of these floods of "emergency" regulations, there is less sand left on the beach for free people to stand on.

If it finally gets down to a single grain, even though that grain is labeled "free speech and the First Amendment," you'll find that it isn't worth much. ⊕

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Robert Higgs

Blaming the Victims: *The Government's Theory of Inflation*

In October, 1978, President Carter announced an elaborate program of wage-price guidelines to serve as the keystone of his administration's anti-inflation policies. What makes the President's advisers believe that the sword of guidelines can slay the dragon of inflation? Like other knights-errant, they are convinced that they understand the anatomy of the beast, that they know just where they must drive their lance in order to kill or at least disable it. Putting metaphors aside, I am saying that they have a theory about the nature and causes of inflation that suggests guidelines can be an effective anti-inflation policy. It is not a very coherent or well articulated theory, but its main elements can be discerned fairly readily in the statements emanating from the President himself, from the Council on Wage and Price Stability (COWPS), and from the Council of Economic Advisers (CEA).

Robert Higgs is Professor of Economics at the University of Washington. He is popular as a lecturer on economic and monetary affairs. His writings include numerous articles as well as books on *The Transformation of the American Economy, 1865-1914*, and *Competition and Coercion*.

The Official Line

The fundamental assumption of the government's theory is that competitive market forces have little or nothing to do with the determination of prices and wages. "The pay and price standards," the President's advisers say, "are designed to be guides for decision-making agents who have *discretionary power* in wage and price determination."[1] They believe, in other words, that firms can set whatever prices they want and, in conjunction with the unions, whatever wages they want.

Alfred Kahn, the chairman of

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COWPS, and his fellow enforcers obviously believe that this discretionary power resides especially within the largest corporations and labor unions, for those institutions have been the focus of their monitoring efforts from the very beginning. The notion that large firms and unions possess significant power to resist competitive market pressures is known to economists as the administered-price theory. The President's men clearly embrace this theory root and branch.

From the administered-price theory of price and wage determination, it is but a short step to the cost-push theory of inflation. The government economists have taken this step. In this year's Report of the Council of Economic Advisers, one finds repeated assertions that during the current expansion the economy, even in 1978, has not yet experienced excessive aggregate demand for its output. Idle plant and labor, it is said, have been ample to accommodate increases in the economy's rate of output.[2] Rather than the pressure of excess demand driving up prices, the government economists see cost increases, particularly increased costs of labor, pushing prices up. "[T]he rise in unit labor costs," it is alleged, was "a major factor in the acceleration of inflation" in 1978.[3]

By combining the assumption of discretionary market power, the administered-price theory, and the cost-push theory of inflation, the government economists arrive at the concept of a *wage-price spiral* as a characterization of the causal structure of inflation. In this view, large firms and unions conspire to push up wages excessively; the firms then pass the increased labor costs along to final consumers and other purchasers in the form of higher product prices, thereby creating inflation. In response to this inflation, which reduces real wages, the unions subsequently return to the bargaining tables with even more outrageous demands. The economy is propelled through successive rounds of inflation kept in motion by the powerful but socially irresponsible actions of the large companies and unions. The rest of the economy, with its smaller firms and mostly nonunionized workers, falls passively into line with the patterns set by the large firms and unions.

The wage-price spiral is the government's accepted view of the basic inflationary process, but the President's men complement this basic conception with two auxiliary theories of inflation: the exogenous shock theory and the self-sustaining expectations theory.

The exogenous shock theory has been especially popular of late. In his economic report to the Congress this year, the President relied on it almost exclusively to explain the

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recent increase in the rate of inflation. Mr. Carter identified several important shocks:

> *Cold winter weather* affected food supplies and prices. *Depreciation of the dollar* in foreign exchange markets added to prices of imports and to prices of goods produced by U.S. firms that compete with imported products. Costs of land and building materials were driven up by *exuberant demands for new homes,* and the *rise of mortgage interest rates* added to the costs of buying a home. At the same time, the cumulative effects of *government legislation and regulation* over recent years gave further impetus to cost pressures. A large part of the worsening of inflation last year, however, stemmed from *poor productivity.*[4]

Of course, the most frequently cited exogenous shock of all is the effect on fuel and related prices when the OPEC cartel raises the price of oil. All of these exogenous shocks are thought to be external to the normal functioning of the American economy but additive to its allegedly inherent wage-price spiral. They are seen as unfortunate accidents—our luck seems always to be bad—that make inflation even worse than it would be as a result of the internal wage-price spiral.

Finally, the self-sustaining expectations theory completes the government's overall conception of the inflationary process by suggesting that, once inflation has gone on for a while, people expect it to continue; and these expectations, all by themselves, can then continue to push prices up year after year. In the words of the CEA, "Once under way, a high rate of inflation generates responses and adaptations by individuals and institutions that *perpetuate the wage-price spiral,* even in periods of economic slack. . . . The formal and informal adaptations to a longstanding inflation exert a powerful force tending to sustain inflation *even after the originating causes have disappeared.*"[5] Those who regard economics as the dismal science will certainly find ample confirmation in this theory.

Fallacies of the Official Line

Unfortunately, the entire edifice of the government's theories—the assumption of discretionary power, the administered-price theory, the wage-price spiral, the exogenous shocks, the self-sustaining expectations—all of it is the rankest nonsense as an explanation of inflation. There are a variety of pertinent reasons for rejecting the official line.

Consider for a moment the assumption of discretionary power. This unfortunate belief seems to have grown out of the common observation that many firms can increase their prices somewhat without losing *all* their sales. What the notion of discretionary power neglects, however, is that, unless the demand for its product has increased, a firm that raises its prices

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will experience a reduction in unit sales volume. Even the true monopolist, the single seller with the market all to himself, must contend with the law of demand—and, of course, true monopolists are as rare as hen's teeth. Clearly, even firms in highly concentrated industries must, and do, compete for the customer's favor. Despite what Professor J. K. Galbraith and a host of lesser known polemicists have asserted, it simply is not true that large firms can raise their prices at will without suffering any consequent reductions in sales. Even if this ever had been the case, we can be confident that business managers would long since have taken advantage of such a marvelous opportunity for adding effortlessly to their profits. The idea that large firms possess bottomless reservoirs of discretionary pricing power is preposterous in its logic and without any basis in fact.

The closely related theory of administered pricing is similarly flawed. George Stigler and James Kindahl, in the most painstaking and carefully designed study of industrial prices ever conducted, found that industrial markets, including those with only a few large firms, are *not* "unresponsive in their pricing to changes in general business conditions";[6] that is, the price data refute the administered-price theory.

Economists have also tested the relationship between industrial concentration and the rate of price increase among industries. Both in the late 1960's and in the decade terminating in 1977, they have found that the correlation between concentration and price increases is *negative;* that is, the industries with a few large firms have had *smaller* average increases in prices than the industries with many small firms.[7]

George Shultz, the former Secretary of the Treasury who occupied an important administrative position during the period of President Nixon's price controls, has pointed out that between 1971 and 1974 prices rose most rapidly in sectors with many small firms (e.g., agriculture), in sectors dominated by the government (e.g., health services), and in sectors heavily involved in international trade (e.g., petroleum).[8]

One can draw similar conclusions for the past 11 years by examining the broad components of the consumer price index: since 1967 (index = 100), the greatest increases have occurred in the prices of home ownership (238.8) and medical care (227.0), both sectors that are dominated by a multitude of small suppliers. Even increased fuel and utilities prices (218.5), which have been so profoundly affected by the actions of the OPEC cartel, have barely equaled the increased prices

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of food (217.8), which is supplied by tens of thousands of stores and middlemen and millions of farmers.[9]

The administered-price theory, scientifically speaking, is a joke—though not a very funny one. Nevertheless, it is very popular among the general public, who are infected with a chronic distrust of big business' motives and actions. And it is, if anything, even more cherished by politicians. As Shultz has said, "The politician . . . knows the political mileage to be gained by pushing around the big boys in the economy, whether or not it makes any economic sense."[10]

Without the assumption of discretionary power and the administered-price theory to support them, the cost-push theory of inflation and the notion of a wage-price spiral collapse of their own weight.

Inflation versus Relative Price Changes

In any event, the cost-push theory, along with the exogenous shock theory, fundamentally misconstrues the issue in question. Inflation is *a persistent, ongoing increase in the average price of the economy's total output;* or, looking at it from its other side, inflation is a persistent, ongoing decline in the average purchasing power of money. Unfortunately, it has become commonplace for people to refer to any increase in the money price of a particular product, no matter how small or how transitory, as inflationary. This confuses the price of a particular good with the average price of all goods. It is extremely important to understand that *in any real economy some increases in the prices of particular goods would necessarily occur even if the overall price level were perfectly stable.* Obviously, such particular price increases would change only the *relative* prices of particular goods; declines in other individual prices would offset these increases, thereby keeping the aggregate price level constant.

The fallacies of the cost-push theory can be illustrated well by a simple, hypothetical example. Suppose a firm and a union enter into a conspiracy to raise the wage paid to the firm's workers far above the competitive level; the firm then raises the price of its product enough to offset the increased labor costs; *but* the total volume of money expenditures in the overall economy remains the same. What will happen?

Under these circumstances, the firm will find that because the relative price of its product has increased, it will be unable to sell as much of its output as before; it will have to reduce production and lay off workers. These workers must go elsewhere to obtain employment.

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The increased supply of workers elsewhere will tend to reduce the wage rate, lower production costs, and encourage enlarged production and therefore reduced product prices elsewhere. The ultimate outcome of these readjustments is that the conspiring firm to some extent prices itself out of the market; its labor force shrinks, and some of its initial workers find work elsewhere at lower wages. The price of the firm's product does increase, to be sure, but prices elsewhere decrease. Inflation, most emphatically, does not occur.

The truth is that as long as the aggregate volume of money expenditures is held fixed, cost increases in particular firms or sectors, no matter what their origin, can cause only *relative* price changes. Such cost increases alone *cannot* cause inflation, which is a persistent, ongoing increase in the *average* price of *all* goods and services.

Recall the alleged causes of increased inflation in 1978 as identified by President Carter. They include bad weather, dollar depreciation against foreign currencies, increased demand for housing, and higher mortgage interest rates. Each of these can cause a change in relative prices, but none of them can cause inflation. The cost-push theory of inflation, from an intellectual standpoint, is simply indefensible. It remains immensely useful for politicians, however, because it shifts the blame for inflation onto the private sector. But private citizens cannot cause inflation, because they cannot regulate the volume of aggregate money expenditure. Whoever controls that bears the blame for inflation and holds the only key to stopping it.

What Really Causes Inflation?

Inflation occurs, by definition, when the economy's aggregate volume of money expenditure grows faster than its aggregate real output. The excessive growth of money expenditures can have, again by definition, only two sources: either the velocity of monetary circulation grows excessively or the money stock itself grows excessively (or both). Our current inflation is attributable almost entirely to excessive growth of the money stock.

Because the excessive growth of the money stock and the inflation it causes do not happen simultaneously, some people always fail to perceive the relationship. Increases in the money stock take some time before their effect on the volume of expenditure becomes significant. But once the actual lag is recognized, the relationship is seen to be very close. By relating the rate of inflation in a given year to the average rate of growth of the broadly-defined money stock (M3) during the three previous years, one can chart a clear parallel relation-

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ship. During the 1970's, the only breakdown of this relationship occurred in 1972; and, of course, that anomaly disappears when one adjusts the inflation data for the effects of the severe Phase II price controls in force in 1972.

In short, inflation is *not* caused by cost-pushes, wage-price spirals, depreciation of the dollar on foreign exchange markets, regulatory constraints, minimum wage laws, or lagging productivity growth. Inflation is a purely monetary phenomenon: when the purchasing power of the dollar falls steadily and persistently over many years, it is because dollars have steadily and persistently become more abundant in relation to the total quantity of real goods and services for which they exchange. Inflation, in sum, is caused by excessive growth of the money stock. Period.

The Government's Responsibility

As the Federal Reserve System authorities can control the rate of growth of the money stock, they clearly are to blame for its excessive expansion. Of course, the executive and legislative branches of the federal government have put heavy pressures on the monetary authorities to expand the money stock fast enough to "facilitate" the easy financing of the enormous, unprecedented peacetime deficits in the federal budget. In general, however, the Fed has been an easy touch, quite responsive to these pressures. William Miller, the current chairman of the Federal Reserve Board, has been variously described as "cooperative," a "team player," and "a tool of the [Carter] administration."[11] One wishes the central bankers had had more backbone.

If they had, we would have found that mere deficits, in the absence of excessive monetary expansion, can not cause inflation. Clearly, the deficits, working through the political process as it influences the Fed, *encourage* a loose monetary policy. But it is essential to recognize that it is the excessive growth of the money supply, whether to finance deficits or for some other reason, that causes inflation. Conversely, with a sufficiently slow growth of the money stock, there can be no inflation, no matter what is happening to the federal budget, labor costs, regulatory standards, minimum wages, and so forth. To repeat, inflation is a purely monetary phenomenon.

It hardly needs to be added that once excessive monetary expansion has been halted, inflation cannot be kept alive merely by expectations of inflation. People will find that, in the absence of continuing monetary stimulation of aggregate expenditures, the inflation they expected just doesn't happen. If they are obstinate and continue to act as if inflation is not abating, they will simply

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price themselves out of their markets in the same manner as the conspiring firm in the example above. It is far more likely, however, that they will *adjust their expectations* as the rate of inflation falls. Expectations cannot sustain an inflationary process unless they are *validated* by the actual course of inflation; and that validation can occur only so long as the growth of the money stock remains excessive.

—FOOTNOTES—

[1]Council of Economic Advisers, *Annual Report, 1979,* p. 84; emphasis added.

[2]*Ibid.,* pp. 58-60.

[3]*Ibid.,* p. 57.

[4]*The Economic Report of the President, 1979,* p. 6.

[5]Council of Economic Advisers, *Annual Report, 1979,* p. 55; emphasis added.

[6]George J. Stigler and James K. Kindahl, "Industrial Prices, as Administered by Dr. Means," *American Economic Review,* 63 (Sept. 1973): 720.

[7]Leonard W. Weiss, "The Role of Concentration in Recent Inflation," in Yale Brozen, ed., *The Competitive Economy: Selected Readings* (1975), pp. 206-212; and research by J. Fred Weston, cited in *Fortune* (March 26, 1979): 40.

[8]George P. Shultz and Kenneth W. Dam, "The Life Cycle of Wage and Price Controls," in *Economic Policy Beyond the Headlines* (1977), p. 77.

[9]Council of Economic Advisers, *Annual Report, 1979,* p. 239; latest price index values given are for November 1978.

[10]Shultz and Dam, *op. cit.,* p. 78.

[11]*Wall Street Journal,* February 16, 1979.

Antony G. A. Fisher

The Economics of the Barricades

A few months ago at a dinner party in London, our hostess announced she was quite ready to shoot the hospital workers. She was absolutely sincere, referring to the striking members of a union which had effectively crippled hospitals throughout England, increasing the backlog of patients awaiting surgery by some 60,000. This meant untold suffering, and, in some cases, death for those who could not wait.

At other dinner tables one imagined similar housewives declaring

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equal fury at the striking truck drivers whose refusal to haul food caused tons of produce to be dumped at sea, making that which dribbled into London shops exorbitantly priced.

It's not a new story. Economic disorder always divides society, pitting one segment against another. Wat Tyler's Rebellion of 1381 was described as "the malice of laborers" refusing to work at the low wages fixed by Parliament. In 1790 the washerwomen of Paris demanded death as punishment for the merchants whose prices of soap had soared, and Marat responded that the people should help themselves by hanging the shopkeepers and plundering their stores. The great German inflation following World War I was first blamed on the balance of payments, then on the speculators, and ultimately on the Jews. Even the Greeks had a word for this: "stasis" or creating hatred between members of society.

What is responsible for this disease of "stasis" from Diocletian down to our hostess last winter? In every instance it is indirectly due to government intervening in the normal course of the market. Wat Tyler's rebels were against fixing of wages after the Black Death had so diminished the labor force the surviving workers could get triple their former pay. There were no unions to blame, no media or communications system (they couldn't even read or write), yet an attempt to cut their pay caused a rebellion or "strike."

In 1776, American inflation brought despotic controls and punishment to "speculators," evoking this comment by Pelatiah Webster: "we have suffered more from this cause than from any other cause or calamity. It has killed more men, pervaded and corrupted the choicest interests of our country more, done more injustice even than . . . the enemies." The reference, of course was to the enemies of the Revolution.

Few realize the French Revolution came on the heels of France's most appalling inflation and wage and price controls, enforced by the guillotine.

Even the United States and Britain first blamed "speculators" for the inflation of the mid-1970s, then imposed wage and price controls, "guidelines," and "sanctions" intermittently to counteract the inevitable results of government's own inflationary policies.

These controls attempt to hide the rising prices which are the major symptom of inflation. They will not work, any more than breaking the thermometer will cure the flu. In spite of their history of failure, such controls appeal to the politician because they transfer the blame for his own profligacy to scapegoats such as organized labor or capitalists. Yet,

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how could the 5 per cent increase permitted by Britain's recent wage-restraint policy conceivably compensate the worker whose contract was up for renewal after two years of 10 per cent per annum inflation? Add progressive tax rates and the worker is justified in asking 12 to 14 per cent per annum increases, or 28 per cent, just to stand still!

Unquestionably, British labor unions have entirely too much power, and their members include Marxists intent upon destroying the system. But in the last 50 years British wages have fallen from almost double German or French wages to little more than half their wages. Were the general public to understand this, the current strikes might be considered a justifiable outrage against an unreasonable government, and our housewives might be less anxious to brandish their guns.

Understanding, in fact, is the only possible cure for what history indicates might become a bloody confrontation. It is necessary to understand that inflation is caused by government mismanagement, overspending, and the consequent printing of money, and that controls or sanctions will not mitigate, but will *exacerbate* the ultimate devastation of the economy. It is imperative for people and their political representatives to know that the consequence of such controls is not only a deprivation of human liberty, but a serious inhibition to human productivity which compounds the problem.

But foremost among the evils of inflation, and government's stopgap measures intended to alleviate it, is the human antagonism, the rancor within a society where each blames another for his plight. Labor versus industry, housewives versus merchants, farmers versus bureaucrats, rich versus poor, and so forth and so on, as society sickens with alienation. Yet the resulting chaos is built on *error:* each individual is reacting naturally to an injustice perpetrated, not by his imagined adversary, but by his government!

It behooves us to get this message across before the misunderstanding destroys us. This is a lesson Americans might learn from the British, if only they will listen.

Antony G. A. Fisher, author of *Fisher's Concise History of Economic Bungling*, is founder of the Institute of Economic Affairs in London, and instrumental in starting the Fraser Institute of Vancouver, Canada, the International Center for Economic Policy Studies in New York, the Fisher Institute of Texas, and the Center for Economic and Environmental Analysis of San Francisco, all of which publish research on public policy issues.

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Robert G. Anderson

THE REDISTRIBUTION OF WEALTH— LABOR UNION STYLE

THE REDISTRIBUTION of wealth as well as the creation of wealth is a natural development of the market process. Voluntary exchanges among individuals as producers and consumers constantly bring about the creation and redistribution of wealth.

The advancement in the material well-being of individuals that results from a developing social division of labor is one of the great blessings of a free market society. The specialization of individuals producing goods and services for trade in the marketplace has enhanced labor output far beyond anything that was attained by individuals who produced exclusively for their own direct consumption.

Mr. Anderson is Executive Secretary and Director of Seminars, The Foundation for Economic Education.

With the market price system as their guide, entrepreneurs respond to their assessment of consumer desires by bringing together capital and labor in the production of goods and services. The future behavior of the consumers in the marketplace ultimately rewards or penalizes these entrepreneurs for their decisions. If the entrepreneur's judgment in the productive employment of capital and labor is correct, as evidenced by subsequent consumer buying, profits result. A lack of consumer buying, however, reflects losses to the entrepreneur for his erroneous employment of these productive resources.

The natural market process is the motivating force for all productive effort, and countless daily activities of this type result in an orderly

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market price system. Such voluntary behavior by producers and consumers responding to market prices not only creates new wealth but results in the constant redistribution of wealth within a free society.

Competitive Allocation

There can be no reasonable objection to such redistribution of wealth when it results from voluntary exchange in a competitive marketplace; quite the contrary, such market processes are continually directing productive resources to their highest use and thus bringing about the greatest material progress.

The redistribution of wealth by labor unions, however, differs profoundly from the market process. Unlike the transfer of wealth in a voluntary exchange between a producer and consumer, the shift of wealth by labor unions is accomplished involuntarily, by force and intimidation. Furthermore, the magnitude of the wealth transferred by labor unions as well as the extent of the burden upon those deprived can never be calculated. These are unseen effects of the labor union's impact on the market.

An understanding of this distinction requires an awareness of labor's role in the marketplace. Contrary to the popular misconception that conflict prevails between labor and capital in productive employment, these independent factors of production actually complement one another. A joining together of capital and labor by the entrepreneur stems from the exercise of his foresight in the anticipation of future consumer behavior, and the two factors work together for the benefit of consumers.

The Active Force

It is competition among entrepreneurs for capital and labor, not competition between capital and labor, that is the active force in the free market. Within the context of a particular productive effort, capital and labor join together in producing the output of goods and services for the benefit of consumers. The ultimate valuation of these goods and services by consumers in turn establishes the value upon the specific productive factors employed.

It is true that capital frequently displaces labor in productive activity, as new and better machinery is invented. But far from a destructive, competitive force harming labor, such labor saving devices are the primary ingredient for material progress. Increases in both the quantity and quality of productive capital—tools and machinery—contribute to an increase in labor's productivity.

The value of labor is dependent upon "getting more goods out of the woods in a given period of time." When capital is employed in produc-

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tion the output of labor is enhanced. While greater work effort can increase production, the history of man's material progress has primarily occurred through the use of capital—more efficient tools. It is an obvious truism that a man working with a machine can produce more than a man with his bare hands, and on a greater scale the observation that the great consuming nations are the great producing nations is directly related to their abundance of capital.

It is equally true that labor competes with labor. Just as entrepreneurs bid against one another for productive labor, so too does worker bid against worker for productive employment. This competition among entrepreneurs, and among workers in the labor market, is a continual force that directs productive resources to their highest and most efficient use.

Competition therefore, rather than being destructive, can thus be seen as a guiding force toward the attainment of efficiency in the employment of productive resources. The substitution of capital for labor, which increases the productivity of labor, makes the labor correspondingly more valuable to competing entrepreneurs. This combination of greater capital employment coupled with competing entrepreneurs seeking competing workers, results in ever-increasing benefits for labor.

The Exploitation Theory

The historical evolution of the union in the labor market had its intellectual roots in Marxian theories of exploitation. Arguing from the defunct labor theory of value as its premise, the exploitation theory held that an inherent conflict existed between labor and capital. The labor theory of value erroneously assumed that the source of economic value was labor input. The returns paid to capital and the extrepreneur, therefore, were necessarily assumed to come from an exploitation of the labor employed in production. Interest and profits were considered "unearned," and the increment paid to them created "surplus value," a capitalist accumulation of productive resources in fewer and fewer hands.

Modern marginal utility theory as well as actual experience in the labor market has totally demolished this fallacious labor theory of value and its erroneous conclusions. It is now well-recognized that the true source of value is subjective, that it is the individual tastes, preferences, likes and dislikes of consumers which give economic value to productive resources. The reason that productive resources have value is because of the contribution they make in satisfying the desires and demands of consumers.

Entrepreneurs try to anticipate what these future consumer values

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will be and to direct market resources into productive activity to ultimately meet these values. The pursuit of profit is the motivating force for this risk-taking activity. This return of profits to the successful entrepreneur resulted from his bringing together independent factors of production into a complementary state, *today*. To this end, the factors land, labor, and capital were drawn together for the present benefit of consumers.

Contributing Factors

While labor is an important part of productive activity, it is certainly not the sole contributing factor to productive output. Compensation to the entrepreneur and to the owners of capital and land for their roles in bringing about desired goods and services for the consumer must also be paid. What this payment will be to each contributing factor of production is consumer-determined by the resources they willingly exchange for the end-product of the productive enterprise.

The rent for land, the interest for capital, the wages for labor, and the profits for entrepreneurs are determined by market forces. That is, the given supply of each factor of production relative to the demand for this factor determines its market price. And since it is the final judgment of the consumers on the worth of the productive output which gives value to these productive resources, the greater the quality and quantity of output that these productive resources can generate, the more valuable they are in terms of market prices.

It is for this reason that an increasing abundance of land, capital, and successful entrepreneurs improves the returns to labor. As the total supply of these other productive factors increases, relative to the supply of labor, the greater will be labor's share of the total returns. The higher and higher wages earned by labor, therefore, have evolved from the greater productive output made possible by a declining cost of interest, rent, and entrepreneurial expertise as the supply of each of these has increased.

While the concept of labor unions originated in a labor/capital conflict theory that has long since been refuted, and the advancement of living standards can be directly identified with the market process, the labor union continues to exist today as an imposing force.

The historical growth of unions to their present influence in the labor market has little, if anything, to do with their economic role. An understanding of labor union growth requires an understanding of how the power of legal, government-sanctioned monopolies can displace the market force of competition.

The role of law in a market society

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is to protect life and property. This function is vital to the preservation of peace and harmony among the members of society. Such a role demands equality before the law if legal justice is to prevail. To violate this principle of universality guarantees injustice.

Special Powers of Coercion Promote Growth of Unions

It is an historical fact that the growth and presence of labor unions can be traced directly to violations of these legal concepts. Prior to 1930 fewer than four million members of the labor force were unionized in the United States. Beginning with the passage of the Norris-LaGuardia Act in 1933, and the National Labor Relations Act in 1935, unions acquired special-interest legal advantages denied to any other institutions or individuals. There is no question that a definite correlation can be found between the preferential legal treatment accorded unions at that time, and the twenty-one million union workers in today's United States labor force.

The growth of union membership during the past forty years would never have been possible without these special powers of coercion. Competitive free-market labor long ago would have displaced this inefficient structuring of unionized labor had not unions possessed their legal advantages. Modern unionism has been the offspring of a statist society of legal privileges.

It must be pointed out that modern unionism is not synonymous with a voluntary association of workers. It is frequently argued that unions are simply a cooperative arrangement of workers engaging in collective negotiation with their employer or employers. To believe that this is *all* that constitutes modern unionism would be exceedingly naive because it ignores reality.

Certainly there can be no moral objection to workers creating a voluntary, private association as their representative in employment negotiations with their employers. From an economic viewpoint, however, such a collective approach can never serve the individual worker's interests as effectively as he can serve himself. The collectivization of individual workers is not consistent with the competitive conditions that exist between workers for available jobs offered by employers. The establishment of a union of workers must subordinate the interests of the individual worker to the group.

It became obvious very early in the history of the labor union movement that the competing threat from workers in the free labor market would lead to the demise of unionism. The survival of labor unions in a competitive labor market would prove impossible as long as freedom of entry by new workers

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was allowed in the union labor market. Furthermore, the more productive workers within the union itself would inevitably discover the price they were paying as members of the collective group.

Violence and Privilege

The survival of unions was dependent upon the use of both private violence and legislated favoritism. It is no accident that the entire history of union growth is marked with examples of violence. To survive and grow, unions systematically resorted to physical attacks on persons and property. Efforts at retaliation by employers led to mass conflict. Public opinion, swayed by a belief in labor/capital conflict theories, passively tolerated and sanctioned this union violence.

As long as the general belief was that outbreaks of violence were caused by employers fighting to preserve their power over exploited workers, the political climate was established for the creation of pro-union legislation. Union propaganda had successfully molded public opinion into believing that unions were the means by which working conditions were improved.

It is a simple truism that ideas determine actions. While truth will ultimately prevail in the intellectual battle of ideas, the belief in fallacious ideas meanwhile will chart our directions, and lead us to the disastrous consequences of these erroneous ideas. And so it has been with the labor theory of value and its concomitant conclusion of exploited labor under capitalism.

Arguing from these intellectual errors, the union was seen as a device to combat socialism and preserve capitalism from its inherent, self-generated defects. Believing that the individual worker was defenseless against the exploitation of the employer, the union has presented itself as a "progressive friend" of labor. By banding together, the workers would be a "countervailing power" within the labor/capital conflict environment that was believed to exist.

Such fallacious beliefs have, indeed, caused needless turmoil among men and destruction of property. Armed with the passive support of public opinion and enabling legislation, unions have inflicted massive violence upon persons and property in their attainment of monopoly power in the labor market.

It is imperative to recognize the true nature of modern unionism. The union today is a legal cartel. It is as reactionary an institution as the guild of medieval times, but more insidious in its violence. Its violence against competing workers (scabs), and its intimidation against employers (strike), are matters of historical fact. The ominous pres-

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ence of union labor today is mute testimony to the triumph of monopoly violence over peaceful competition.

The economic impact of the union as a legal cartel is no different from that of any other monopoly. Its preservation of power is dependent upon government legal protection, and/or private violence. The power of the labor union is particularly significant because it relies on both of these sources—all the power the law allows plus what can be usurped through private violence.

Granted legal immunity from the judicial injunction, and exempted from jury trial in the United States, the legal power of the union against employers is awesome. By the execution of the strike and the illegal use of private violence to restrict replacement of striking workers, a union can effectively enforce its monopolistic wage demands against an employer.

A Progressive Force?

The redistribution of wealth by legal plunder or private violence is nothing new in the history of mankind. What is new, however, is to refer to unions as a "progressive" force as they engage in the destruction of the peace and harmony of the capitalist order.

The growth of union power in the private labor market was in direct proportion to its effective use of the law and private violence. The abdication by professional managers of responsibility to corporate owners of broadly-held stock companies made the task of unions even easier. Rather than resist and risk bad publicity by replacing striking workers with new workers, the professional managers of large corporate employers yielded to union demands for higher wages. The unions thus succeeded in acquiring for their workers a wage rate higher than would have been attainable under conditions of a free, competitive labor market.

This situation can be clearly seen wherever labor unions are present in a labor market. Union wage rates are significantly higher than the wages paid for similar labor that has not been unionized. The tragedy has been to ascribe this differential to the union's ability to raise the general wage rates of *all* labor, rather than to the use of their monopoly power in raising the wages of just some of the union workers in the labor force.

The direct economic impact of a legal cartel is clearly visible. By forcefully preventing entry of any competitive supplier, the cartel is able to command a monopoly price for its services. The result is that the consumer of goods and services offered by a cartel is prevented from acquiring alternative goods and services from competitive sources.

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This is precisely the case with employers acquiring union labor. The supply of workers bidding for the jobs offered by employers is restricted by the union. Furthermore, no individual is permitted to negotiate directly for himself with an employer of union labor. The employer is forced to negotiate exclusively with the union for his labor requirements. Irrespective of market labor supply factors that would contribute to the determination of a market wage rate, the employer is forced to negotiate fixed wage rates with the union.

Above-Market Wage Rates

The legal advantages and private violence of the union are exercised in acquiring wage rates higher than would be paid by the market. The employer, in the interests of short-run peace and a return to productive activity, is intimidated into accepting the wage demands of the union. Regardless of any changes in the market forces of supply and demand, the employers are bound to their fixed wages with the union.

While the union, in the exercise of its powers as a cartel, succeeds in acquiring the payment of wage rates above the prevailing market rate, it cannot insulate itself from the inexorable forces of economic law that must follow from such action. Other consequences, less visible and unseen by many, inevitably result from such forceful intervention in the market.

The most obvious market response is that the quantity of labor demanded, as with any economic good, will be less at a higher price than at a lower price. Many consumers will be unwilling to voluntarily exchange the greater resources required at the higher price. How many consumers will refuse to exchange is dependent upon the subjective valuations of the consumers for the particular economic good. While this knowledge can never be known with certainty, the magnitude of these marginal consumers is the determining factor in establishing what the economist calls elasticity or inelasticity of demand. Economic theory can only inform us, however, that all things being equal, fewer consumers will exchange at a higher price than at a lower price. The quantity of the change is dependent upon the price change and the values of the consumers.

The Employer as Consumer

In the labor market it is the employer who is the consumer. When the price of labor (wages) is increased, the quantity of labor demanded by employers will decline. The extent of the decline, as with any economic good, is determined by the amount of the increase in the price of labor and the number of

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marginal employers (consumers) in the particular labor market. The higher that wages are forced above the market rate, the greater the decline in demand for the labor by these consuming employers. President Calvin Coolidge put it well, "as more and more workers lose their jobs, unemployment results!"

The surplus labor, unemployment, is an inevitable result when employers become unable to recover from consumers the higher cost of their productive output. The force of the unions can increase wage rates, but that same force cannot be imposed upon the buying decisions of the consumer. As employers raise their asking prices to cover the union-imposed labor costs, many consumers will cease to buy the goods and services offered. The resultant decline in consumer buying requires a curtailment of production from the level that had prevailed.

For some employers, this necessity for reducing production levels may prove fatal. At lowered levels of production the employer may be operating so far below his break-even point that he has no alternative but to cease production entirely. More typically, it will mean a reduction in unit efficiency for employers, as the more efficient employers are transformed into less efficient employers. The decline of their efficiency in production means that fewer workers are required.

At the higher wages acquired through union force, both the unemployed and those within the free labor market are attracted to the higher paying jobs in the union labor market. However, this additional supply of labor can have no competitive impact on the union labor market. The employers are bound to their fixed union wage scale and are forbidden to employ competing labor at lower wages.

Unemployment

The failure of the union-imposed wages to adjust to the competitive conditions of the market leads to both unemployment and a distortion of labor allocation. The magnitude of the unemployment and distortion is dependent upon the difference between union-imposed wages and the market wage. The unions are well aware of this consequence and their propaganda constantly seeks to conceal their role as its cause. Their public image as the "friend of labor" forces them to perpetuate the myths that unemployment and the misallocation of labor is caused by the capitalist business cycle and greedy, profit-seeking employers.

While the rhetoric of the union claims no limit to what it can accomplish for the worker in terms of higher wages, the economic limitations of massive unemployment from exorbitant wage demands is understood. The long-term survival

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of the union depends upon a large membership, and the preservation of a large membership of workers requires the economic survival of the employers. It is a constant balancing act, therefore, as the union demands wages above the market, but not so high as to destroy the entire market for the union labor, and with it, the unions themselves.

A Free Market Sector

The capacity of the union to accomplish this feat, almost with impunity, lies in an institutional requirement that is essential to union success. The union must have a concurrent free labor market existing beside it. A competitive labor market that responds to changing forces of supply and demand is needed to absorb the unemployed that are driven out of the union labor market.

Less than one-quarter of the labor market is unionized in the United States today. Furthermore, not all union labor is earning above market wage rates. It is probably a safe assumption that fewer than twenty percent of those in the United States labor market are receiving wage rates above what could be acquired under free market conditions.

It is this small minority of union workers receiving above market wage rates that generates the insidious redistribution of wealth in the labor market. The Tanstaafl principle (There ain't no such thing as a free lunch) has no better demonstration than by this example—*somebody pays.*

There are two groups that pay directly—those who are employed in the free labor market, and those who consume union labor market goods and services. Ultimately, everyone pays indirectly in the form of a lowered standard of living resulting from the disruption of the productive system and reduction of the incentive to the accumulation of capital.

Workers who would be employed in the union labor market, if freedom of entry prevailed, have no choice but to compete in the free labor market where supply and demand forces still determine wages. Their bidding in competition with the existing supply of free market labor causes the wages of free market labor to fall. The result is that wages in the free labor market are lowered because of the entry of the unemployed workers forced out of the union labor market.

This shift of wealth, higher wages to union workers at a cost of lower wages to free market workers, is a subtle, but nevertheless very real, redistribution of wealth. It is, indeed, an exploitation of labor by labor, that is, a forced transfer of wealth from the free labor market to the union labor market in the form of differing wage payments.

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Also harmed are the consumers of goods and services produced by union labor. The law of costs ultimately requires that the higher union wages must be borne by these consumers if production is to continue. Future production at the above market labor costs imposed by unions, exacts its toll in the form of consumer prices higher than would prevail in a competitive market. Once again, a forced redistribution of wealth occurs as the consumer must pay the higher costs of union labor, but of what magnitude can never be known. The competitive market price in the absence of the union labor is unknown.

While such redistribution of wealth by the force of union power represents exploitation and injustice, the capacity of unions to transfer wealth to themselves is limited by the ultimate consumer. If union wage demands become too excessive, employers are destroyed by the failure of consumer buying. In the so-called private sector labor market it is a continual balancing act that is pursued by the union.

There is, however, a new and far more effective labor market that unions can exploit. This is the so-called public sector labor market, the labor market composed of government employees.

Unlike the private labor market that survives by its capacity to produce goods and services that are voluntarily acquired by consumers in willing exchange, the public sector labor market is supported by the taxing power of government. The law of costs does not apply to government activities as it does to private employers in a competitive free market. As a matter of fact, cost has nothing to do with the price of government activities. More often than not, government-provided services are offered free of price to the consumer. The costs of these government services are generally imposed upon the taxpayer.

Monopoly, Bureaucracy, and Union Power in Public Sector

Union power in the public sector labor market is further enhanced by the monopoly structure of government-provided services, and the bureaucratic system of government management. Market competition in the form of freedom of entry in supplying alternative sources of goods and services to the consumer is generally prohibited by the force of law. Unlike the private labor market where higher union labor costs invite competition from free labor market employers, the public sector labor market is protected by legal monopoly. Competitive alternatives to the consumer are denied by the force of law. Whether it is policemen, firemen, teachers, sanitation workers or clerical government workers, the determination of

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public sector wages is more a political or bureaucratic decision than a market-determined decision by consumers.

Resistance to union wage demands in the public sector stems more from political considerations than from productivity considerations. It is usually the vocal outcry of the constituency, not the bureaucratic manager, that objects to the excessive wage demands of the unions in the public sector. After all, the bureaucratic manager himself is a worker in the public sector labor market, and any union gains for his subordinates accrue to him as well. The bureaucratic manager has even less incentive to resist union demands than his counterpart in the private sector market—the professional manager of the large corporation.

The wage costs of public sector workers, like any and all costs of government, ultimately are borne by the taxpayers. Whereas the union redistributes wealth to its workers from expropriating the resources of consumers and free market labor in the private sector, the redistribution of wealth to the public sector worker comes primarily from increased taxation.

Not confronted with the problems of competitive workers or unwilling consumers, the public sector union can significantly increase the magnitude of its wealth redistribution. The only effective limitation to such union power is the same force that limits the whole of government—the private wealth of the citizenry that can be seized by government taxation.

Government labor unions have been quick to observe this massive increase in their power to redistribute wealth, and naturally have urged an expansion in public sector unionization. To this end, the growth of government in economic affairs has opened a new source of labor union power in the forced redistribution of wealth.

It is a sad commentary of our age that the combination of economic ignorance and man's blind pursuit of power has brought us to this point. Any reversal in this state of affairs can occur only if we improve our economic understanding and structure our legal institutions to safeguard our lives and property from such private power abuses.

The hope of the future is in changing ideas. Unions exist today as a monument to intellectual error. They are the product of a statist society that permits the private abuse of power in the forcible redistribution of wealth. Any return to a free society demands the realization that competition and freedom, not legal privilege and violence, are the way to general prosperity for all.

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John Chamberlain

"WINDFALL" FOR CONSUMERS IN DEREGULATION OF OIL

EVEN THOUGH the deregulation of oil prices won't be complete until 1981, practically everybody is certain that the big oil companies—the so-called Seven Sisters—are going to make some exorbitant profits on a "windfall" situation.

But what if the profits fail to materialize? If ordinary economic law has anything to do with it, the increased competition for the expanded energy dollar must, at some point, lead to lower, not higher, retail prices. If this isn't the truth, then Henry Ford never lived, the American Way was a misnomer, and all the classical economists from Adam Smith to Alfred Marshall were a bunch of hams.

My colleague John Roche accurately notes that the big oil companies escalated prices the minute the energy tap in Iran was closed off, even though the fuel they were charging for at the gas pump had already cleared the Persian Gulf before the Shah had taken it on the lam. Of course! The market always anticipates the future. If something is going to become scarce, it makes no sense to get rid of old inventories as if nothing were going to happen.

Conversely, if there is a reasonable expectation of a more plentiful supply of fuel in the future, the inclination of buyers will be to lower their inventories, waiting for the day when prices will come down. So everything between now and 1981 will swing on what is done to lighten the burden of car drivers, manufacturers who use electricity, and home owners who have to heat and light their houses.

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What are the prospects for new oil and gas wells? What sort of deal for fuel can be worked out with Mexico? How soon will that pipeline from Southern California, and the other one from Puget Sound to the Middle West, be finished? How quickly will gasohol, made in a thousand stills from vegetable matter, be available to motorists to mix with gasoline in their tanks? What differences will the new motors that get close to 30 miles a gallon make when Detroit begins to catch up with the Japanese in the competition for the small car market?

The other day this column wrote about the experiments of a Miami company in mixing hydrogen and chlorine, two components of sea water, with light in a closed-cycle engine to form an explosive mixture. Hydrogen unlike crude oil, is all around us. I can't vouch for the chemistry and physics of a hydrogen engine, but *Nation's Business,* in a long and patient article in the April 1979 issue, quotes from the endorsements of a number of disinterested authorities (Dr. Daniel Wells, a professor of physics at the University of Miami who has been an investigator for the U.S. Air Force and NASA projects, is an example).

For the life of me, I can't figure out why the testing of the Solar Reactor Corporation's hydrogen-chlorine-light motor at Aberdeen, Maryland, didn't make a few of our front pages. But then, the Dayton, Ohio, papers missed a palpable scoop when the Wright brothers first flew their plane. Besides, all the energy experts were off to Harris-

John Chamberlain has enjoyed a varied and illustrious career as critic, editor, and journalist. He has been a reporter and daily book columnist for *The New York Times.* In addition to corporation and industry studies for *Fortune, Barron's* and *The Wall Street Journal,* his writings have appeared in numerous other magazines. This article is from his newspaper column, here reprinted by courtesy of King Features Syndicate.

Mr. Chamberlain has taught at the School of Journalism of Columbia University and serves as Dean of the Program for the School of Journalism at Troy State University in Alabama. Among his several books are *The Roots of Capitalism* and *The Enterprising Americans: A Business History of The United States.*

John Chamberlain's book reviews have been a regular feature of *The Freeman* since 1950.

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burg to cover the Three Mile Island disaster. The Gresham's Law of the media is that bad news always drives out good news.

The other day, on the sports page I read about a racing driver who had personally altered his engine to get 67 miles from a gallon of gas. Why wasn't this front page stuff? And why was it left for the *Jerusalem Post* international edition to print the story of Israel's new technique for extracting oil and gas from shale by the use of laser beams which, when directed at shale through a small diameter pipe for deflection by a mirror, kindles an underground flame that sends gas to the surface to be condensed into keroten, a burnable fuel?

Israel has known reserves of two billion tons of shale. If this can be economically exploited, it means just so much less pressure on oil companies that are willing to sell to pariah nations. As for South Africa, one of the pariahs, it intends to get half of its gasoline from coal by the early 1980s.

I fully realize that nothing in economics comes easy. But when the market promises profits, and there is no bar to freedom of entry into the market by the inventors, the explorers and the wildcatters, no OPEC can sit on the lid forever. Windfalls there may be, but when the government removes its cotton picking regulatory hands from the market the price cutters will take over. They will either give us more efficient motors or cheaper fuel—or a combination of the two. ⊕

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IDEAS ON LIBERTY

Serving Others

WHEN a person condemns wealth, he is merely using different words to condemn the profit motivation that causes the production of the maximum amount of goods and services for the greatest number of people. . . .

Personally, I can see nothing wrong or evil about self-interest and serving others because you have to have them serve you in turn. Like anything else, the profit motive and the resulting accumulation of wealth can also be used for evil purposes by evil people. But by and large, the motivation of profit is primarily responsible for the vast amount of mutual service we find among us today. It is responsible for the constantly increasing standard of living in our country and the world in general. It is a moral method of encouraging all of us to serve each other better and effectively.

BENJAMIN FAIRLESS

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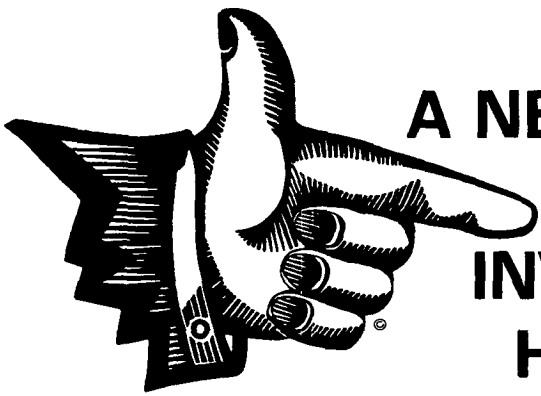
Melvin D. Barger



A NEW LOOK AT THE INVISIBLE HAND

. . . (E)very individual . . . endeavors as much as he can both to employ his capital in the support of domestic industry, and so to direct that industry that its produce may be of the greatest value, every individual necessarily labors to render the annual income of the society as great as he can.

It makes no difference that he neither intends to promote the public interest, nor knows how much he is promoting it. By . . . directing that industry so as to produce the greatest value, he intends only his own gain.

In this, as in many other cases, he is led by an invisible hand *to promote an end which was no part of his intention.* (Emphasis added)

—Adam Smith
THE WEALTH OF NATIONS,
1776

THE most famous doctrine of the moral philosopher Adam Smith was that of the "invisible hand." It usually comes in for ridicule from those who seek the planned society. To them, Smith's unobtrusive hand was either a myth or only a quaint idea that might have worked in the Eighteenth Century. But they say it is naive to believe, as Smith did, that private and social interests are brought into harmony by the self-interested actions of all.

But Smith has actually been misunderstood by friends as well as foes of the free market economy. Never for a moment would Adam Smith have believed that any individual's self-interest is *always* in harmony with the good of society. That would

Mr. Barger is a corporate public relations executive and writer in Toledo, Ohio.

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be an absurdity that is easily disproved by human experience. Nor did Smith believe that any action by a businessman is always good. Smith knew as well as anybody that certain people will practice fraud and deception in the market place, and no "invisible hand" slaps them down before others are cheated. So how does the "invisible hand" really work and what are its limitations?

A new Adam Smith, looking at today's world, could still trace the benign effects of the "invisible hand" —something that Smith's critics begrudgingly acknowledged.

But the "hand" also works in sinister ways to destroy society, and it is doing so now. The key to understanding this is to look at the *nature* of the self-interested actions which might benefit society and to contrast them with other self-interested actions which destroy society. The actions described in Smith's famous example were both *productive* and *peaceful,* and they were aimed at producing goods and services which others would *value* as determined by the market. But what about self-interested actions that are *destructive* and *violent,* and might be aimed at goals which do not have sufficient *value* in a market?

Every sensible person knows that ordinary criminal actions harm not only individuals, but society as well. The robbery of a bank, for example, is considered a crime against the whole society and not just the bank owners and depositors. Most other crimes are in the same category, a tacit recognition of the fact that a good society depends on honest and orderly human actions. It would be ridiculous to suggest that a society of John Dillingers, however, self-interested their actions, could be anything but a nightmare world. Most people will admit that this is true, so they support the government in its efforts to hold the John Dillingers at bay.

But there are other wrongful actions that are not so easy to detect as the robbery of a bank. In these actions, the government itself is both a sponsor and a partner. These actions have a great deal of social approval and have been authorized by the political processes, so a person is almost shouting into the wind by questioning them. Yet, the right or wrong of something is not determined by its political support, but by observing its effects *over the long term and at every level of society.* Adam Smith saw favorable effects in certain productive, peaceful market actions. How would he view the following practices?

1) Payment of benefits to politically active groups and their clients;
2) Granting coercive power to certain favored groups;
3) Intervening in the market with price controls.

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All of these practices are standard features of American government today and have actually become an integral part of the system. It is useless, in most cases, to consider dismantling any governmental program until it has been almost thoroughly discredited. It is also futile to expect to abolish governmental programs simply by proving that they are wrong and inefficient. The would-be reformer always finds himself on a collision course with powerful groups who have an *interest* in protecting certain programs, no matter how bad and even counter-productive these programs have become. Most people who support certain government programs and interventions will also admit that we are being crushed by excessive government spending and controls. Why, then, do they support something which is economically inefficient and results in loss of liberty? They have actually been moved, as if by an invisible hand, to give such support. Here's how it happened.

The Lure of Benefits

One of the most destructive and divisive practices of American government is the payment of benefits to politically active groups and their clients. At one time, such payments were only an insignificant part of the national budget. In the past 30 years, however, the Congress and Administrative branch have become centers for the massive distribution of funds to various localities and groups for numerous social and political purposes. This distribution of benefits goes under a variety of names and is justified by a number of sophisticated arguments and cliches. Some of the benefits programs have become so well-entrenched that they function as part of the economy and people have become totally dependent on them. The person who dares to question such programs runs the risk of being a villain who would leave people destitute and helpless. A good example of this is the Social Security program; one cannot even criticize it without appearing as cruel and heartless, and the same seems to be true of countless other social welfare ventures.

But there are increasing signs that Social Security is becoming a bankrupt program, while demands for other benefits are outrunning the government's ability to collect equivalent amounts in taxes. The competition for government funds has degenerated into a bitter and abrasive contest, with each favored group attacking the others' premises and claims. Meanwhile, taxpayers are balking at the demands placed on them and are beginning to react by supporting legislative proposals aimed at curtailing government spending or taxation. Far from

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creating a good and harmonious society, the struggle for government funds has split society into clusters of special interest groups which snarl incessantly at each other when they aren't busy raiding the federal treasury. If self-interest was seen by Adam Smith as good, why has it led to such disastrous results?

Perhaps the answer lies in the basic nature of benefit-seeking through political action. It is essentially a *destructive* and *violent* action, however peaceful it may seem when channeled routinely through the American political processes. Benefits are obtained by using government police power to force certain people to give up goods and services which are then redistributed to others. Moreover, the persons who obtain the benefits have not produced anything of marketable value as a means of establishing their claims.

It is true that the advocates of this redistribution are always able to present their demands as a good cause that is "in the public interest." It is often the seeming righteousness of their cause, as much as political power, that helps disarm their opponents. Indeed, it is often impossible to oppose certain benefit programs without being smeared as a selfish reactionary who hates the poor or is indifferent to the plight of old and sick people.

No decent person should oppose reasonable welfare measures. But everybody should be suspicious of practices which are obviously bad if everybody adopts them. That is because self-interest is omnipresent in society, and is always alert to new opportunities for personal gain at the expense of others. Let one group establish its claim to government benefits, and this becomes the precedent for all groups to do the same. None of these groups want to destroy society or to drive the government into bankruptcy. But "in this, as in many other cases, they are led by an invisible hand to promote an end which was no part of their intention."

Promoting Coercion

The "invisible hand" is also active in private plans for the coercion of others. There are numerous examples of such coercion, but one of the most notable is compulsory union membership. Although unions are private organizations, the police power of government is decisive in giving them the authority to impose sanctions on dissidents. In this case, the controlling group also has power over a person's livelihood, which is no small thing. Unions' success in obtaining coercive power has also led others to seek similar authority in other ways.

The use of coercive power by unions began in the 1930s with the passage of the National Labor Rela-

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tions Act (the Wagner Act). It was an astonishing breakthrough for union organizers who, until then, had faced resistance not only from employers but also from certain workers who refused to belong to their unions. But the Wagner Act changed all that and eventually had the effect of making union membership and the payment of union dues compulsory. It was argued that every worker benefited from union activity; therefore, every worker had a duty to pay dues and to support the union.

Whose self-interest was being promoted here? Undeniably, many workers believed that they benefited from their union membership, so they had an interest in making the organizing power of the union all-inclusive. Coercion was even more in the interests of union officials, who no longer needed to persuade dissidents to join the unions. The extraordinary argument was even made that workers did not really understand their own self-interest and had to be prodded into it by their more enlightened leaders. In this argument, the intellectuals who supported coercive union activity were showing their contempt for the individual worker. They simply could not believe that men who labored with their hands might also be thoughtful people with strong philosophical and personal reasons for not joining a union.

But the argument for coercion carried the day, and union membership burgeoned. This was to be expected, and it was a natural action of the invisible hand. Witnessing the success of one union, other self-interested organizers went to work forming organizations of their own. Of course they always insisted that they were working either in the workers' interest or in the public interest. But anybody who is familiar with union activities soon learns that self-interest is the controlling factor. Unions do not fight with unusual zeal, for example, to organize small, isolated firms having only a few workers. They are drawn as if led by an invisible hand to the organizations which have a large potential for union membership, dues, and power.

But unions fail to meet the test of the examples in Smith's famous doctrine. They are neither productive nor peaceful, and they produce no goods or services that others would value as determined by the market. The union is simply an intervening third party. All of the goods and services produced by unionized firms could be supplied even more efficiently without the union.

The success of unions in obtaining coercive power has encouraged other movements to adopt similar programs. In most cases, the activists of the 1960s and 1970s have sought the coercive power of government rather

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than peaceful cooperation as a means of getting their way. For the most part, there has been little interest shown by these groups in using friendly persuasion; i.e., in promoting their cause by showing people a way that is superior and desirable. Instead, most of these cause groups prefer tactics of intimidation and threats which force compliance with their point of view.

The consumer movement that coalesced around Ralph Nader typifies this approach. Many consumer activists are sincere reformers who actually believe they are helping people. Yet it is almost impossible to find a single consumerist action that could really be considered productive and peaceful, or was aimed at producing something that others would value in the market. The main goal of consumerists has always been to exercise a life-and-death power over the production processes, without regard for the opinions and rights of participants. They apparently take the position that the righteousness of their cause gives them the right to make the consumer's decisions for him.

The success of these activists, like that of the unions, has spawned countless other movements aimed at changing society and bringing their own leaders into positions of prominence and power. It is sometimes disturbing to note how radical and arrogant these groups have become in their demands for power and authority. But the precedent of giving coercive power to favored groups was established long ago, and we should not be surprised that self-interest leads an increasing number of activist groups to seek similar advantages.

A Hand in the Marketplace

Still, while the "invisible hand" works in every type of human activity, it's probably the customary marketplace of direct transactions that gives us the best examples of its workings. Now that price controls are again being considered, we can easily predict how self-interest will cause them to fail. Of course, while the proponents of price controls usually agree that "greedy business interests" cause their program to fail, they should at least realize that *everybody's self-interest* will tend to thwart the aims of the price controllers.

Price controls are laws or administrative rules devised to prevent producers and sellers from raising their prices above certain levels which are deemed to be fair or in the public interest. The current purpose is to restrain inflation and protect the consumer's purchasing power. When price controls are being proposed, the producer or seller is often portrayed as a heartless wretch who has both the desire and the power to price-gouge the consumer.

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Commercial Decisions

What would our friend Adam Smith have to say about that? He would have agreed, most heartily, that producers and sellers have a self-interest in earning as much as they can. But they never have the power to charge more than customers are willing to pay, *nor is it always in their self-interest to raise prices*. Sellers frequently improve their earnings or cut their losses by *lowering* prices. But it is as wrong to condemn a price increase as it is to praise a price cut, because both price adjustments should be viewed as commercial decisions which the seller made in his own self-interest. The supermarket produce manager who slashes the price of bananas on Saturday afternoon is not performing an act of charity; he is only trying to reduce his losses on supplies that would otherwise spoil. Nor is he a scoundrel when he raises banana prices on Monday. He is only responding in a proper businesslike manner to market conditions of supply and demand.

But price controllers either ignore the normal operations of prices in the market or declare that special conditions make price controls necessary, at least for the time being. When the controls are enacted, however, much mischief happens—and it's all directed by the invisible hand of self-interest.

First, there's the self-interest of buyers, who welcome the opportunity to purchase goods and services at below-market prices. Their demands will naturally exceed the supplies being offered at that price level. Producers and sellers, who were prevented from expressing their self-interest in pricing, now curtail their production or shift their resources into other product lines. When shortages develop, those producers who are willing to take the risk will sell above the controlled price in the so-called "black" market. Or both sellers and buyers may create ways of getting around the controlled prices without appearing to break the law. Both parties to the transaction may find it in their self-interest to ignore the controlled price. The buyer would appear to be the victim of price-gouging, but he prefers that to the bleak alternative of not being able to complete a purchase of needed goods. So he cooperates in circumventing a law that was supposedly designed to protect him.

Self-Interest Is Always Present

It would be possible to detect the workings of Adam Smith's "invisible hand" in an infinite number of economic decisions. For example, what form of communications causes used car dealers to raise and lower car prices almost simultaneously? Some naive people would charge collusion, but price changes

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occur automatically at businesses owned by car dealers who haven't spoken to one another in years! Or, what causes the prices of real estate to rise and fall, and why do sellers seem to know the "going" price of their houses even when they do not ordinarily deal in real estate? How do unlettered immigrants, though unable to speak the language of the country, quickly learn how to identify currency values and make ordinary transactions with the shrewdness of native citizens?

The answer is that we can always depend on self-interest to work in certain ways most of the time. People do not usually need to be instructed to take actions which they perceive to be in their self-interest. This is not to say that everybody has the same goals or always takes actions which are good for him in the long run. Human beings do seem to be remarkably perceptive, however, about things they are interested in and want to do. The dedicated farmer who expects to get a good price for his crops does not have to be ordered out into the field at gunpoint; the inventor who hopes to reap a fortune with his new gadget does not have to be locked into his workshop; the investor who expects a handsome return does not have to be coaxed to save and invest. People do all these *productive* and *peaceful* things voluntarily because they will be rewarded if their efforts have value in the market. Nobody has to worry about directing or organizing their efforts; indeed, all this activity is best coordinated when government planners stay out of it. The omnipresence of self-interest will see to it that each individual finds a place of service and ways of supplying his needs in peaceful ways. As Adam Smith showed, the total wealth of the nation will then grow by a seemingly mysterious process.

That same self-interest can become troublesome, however, when people are rewarded for *destructive* and *violent* actions. The effect of such rewards is to encourage others to use the same tactics, which encourages still others to do the same, ad infinitum. This can only result in a slowing down of productive efforts and an eventual breakdown in society and the economy. Nobody but a madman would desire such an end, and certainly nobody believes his own actions are taking society in that direction. But people can be led, "as if by an invisible hand," to promote a sad end which was not part of their original intentions. This is no more surprising than Adam Smith's observation that self-interested actions can promote good ends. He might have added that the ends are predetermined by the nature of the actions. Peaceful actions will lead to desirable ends, violent actions lead to chaos and disorder. We choose the ends when we choose the actions.

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World in the Grip of an Idea

Clarence B. Carson

31. The Subjugation of the Individual

THE SUBJUGATION of the individual proceeds along two parallel lines as the idea which has the world in its grip extends its sway. One line is to bring the individual under the domination of organizations, and ultimately of government. The other is to use numbers in such a way as to reduce the individual to a nullity and thus to instrument him to the purposes of those who hold power.

Collectivism is supposed to be a means of transcending the limits of the individual, of augmenting him by joining him with others. The device by which this is to be accomplished is the organization. The notion which makes this appear to be possible is that the organizational whole is greater than the sum of its human parts. But, as has been noted, the organizational whole is only greater than the sum of its parts in its coercive and destructive potential. It is less than the sum of its parts in its constructive potential. This is so because rather than augmenting the constructive powers of the individual by organization they tend to be narrowed, confined, and delimited the more firmly control is asserted.

In this series, Dr. Carson examines the connection between ideology and the revolutions of our time and traces the impact on several major countries and the spread of the ideas and practices around the world.

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The collectivist reliance on organization, then, results in increasing coercion, decreasing production, and individuals who are restrained and subdued. The illusion that the individual could be transcended by organization arose from the great increase in production made possible by the much more extensive use of capital in the last two centuries.

Much has been made in this work of the religious character of the animus behind socialism. It might be more appropriate at this point, however, in discussing the devices of socialism, to emphasize the magical qualities attributed to them. The veneration of the organization, and especially the state, entailed in socialism, amounts to a belief that some sort of magic inheres in them. That man could be transformed by these instruments requires magical components within them. If they do have, it is black magic, for the use of force deforms rather than transforms man.

The Use of Numbers

But the reliance upon and use of numbers in our era provides a clearer demonstration of how deeply we are drawn into magical incantations and divinations by the idea that has us in its grip. The description of this will show, too, how the individual is being subdued and subjugated by the use of numbers.

The belief that there is magic in numbers, or at least in certain numbers, is not new to our era, of course; it is at least as old as the earliest records of man's doings. The number "three" has often been singled out as a potent number. "Seven" has long been a favorite number, and it is still highly honored in dice games. Understandably, perhaps, special properties may be attributed to "ten," for it is the normal number of our fingers, as also of our toes. "Thirteen" is widely reckoned to be an unlucky number. Many people believe that they have a lucky number, and contemporary numerology rises to its superstitious peak in the daily selection of a number by those who play the "numbers" racket.

A number system does have strange and often wondrous aspects to it, and it may be that the tendency to see something magical in numbers stems from these. In any case, the use of numbers in calculation, which is their primary legitimate use, has enabled man to formulate precisely much of his knowledge of the universe and to extend his utilization and control over things about him. We comprehend the universe we inhabit mainly by way of numbers: the speed of light, the speed of sound, the distance of the earth from the sun, the length of time it takes the earth to rotate on its axis or to make one revolution round the sun, the law of gravity, and a great variety of other interest-

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ing and sometimes useful information. Size, magnitude, quantity, and ratio, all now expressible with great precision in numbers, are critical for present day production and distribution of goods.

Interchangeable parts—possibly the single most critical technique in the vast expansion of man's power by tools—are made possible by adherence to careful and precise calculations. Hundreds of thousands of nuts are made which will match the threads of a single bolt. Electricity, which cannot be seen, tasted, heard, nor smelled can be measured to the watt and sent surging through wires in force that will vary by only a very few volts. The size of engines—the measure of their potential output—is now commonly expressed in cubic inches or centimeters. The ratio of gears determines the potential speed of vehicles. And so on. In short, man's mastery of things in the world about him is made possible or greatly enhanced by the most precise sorts of calculations. Numbers are the touchstone of contemporary man's control over things for his purposes.

To Control People

The thrust of socialism is to divert the effort from the use of numbers to control and utilize things to their use for controlling people, divesting individuals of the control of their own affairs, and utilizing them for the power ends of government. The late Ludwig von Mises demonstrated that in a pure socialist system economic calculation would be impossible.[1] The reason would be that there would be no market-determined prices whose fluctuation would provide the necessary data for calculation. His student, Murray Rothbard, carries this insight a step farther when he declares that government ownership of any undertaking "injects a point of chaos into the economy." This is so, he says, for "No government enterprise can ever determine prices or costs or allocate factors or funds in a rational . . . manner."[2]

It follows, I take it, that any government intervention in the market will tend to produce a similar effect. The principle that emerges from this can be stated this way: The greater the extent of government intervention or ownership the *less* can numbers be used to control *things* and the *more* will the effect of their use be (when and if they are used) to control *people*. One of the hallmarks of socialism, as we shall see, is to use numbers to control people.

The most obvious use of numbers in gradualist countries is in the effort to control the economy of a nation. The numbers that are believed to be relevant to this undertaking are statistics. Ours is the only era and time in all of history in which na-

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tional statistics have been extensively collected, compiled, and used. There is a reason for this. Statistics are just about the most inherently uninteresting thing imaginable. They are formed by reducing persons, places, or things, to numbers, which is the aspect of them that is positively the least interesting. Indeed, a statistic acquires interest ordinarily as it conveys unusual magnitude or proportions. Insofar as it deals with the average, which is what statistics usually do, it is to that extent uninteresting.

Figuratively Speaking

Poets and historians sometimes used numbers in other ages. An historian writing in the Middle Ages might refer to 10,000 archers standing upon a hill. It is most doubtful that he, or anyone else, had counted them. What he was saying was that a huge army of archers stood on the hill, and numbers struck him as the best way to convey that. Ancient literature contains many references to very precise numbers of people (usually rounded off to the hundreds or thousands), but they are not statistics, as we understand such things; they are poetic uses of numbers. It is not that people in other ages did not sometimes keep careful records and precise accounts; it is rather that to abstract them as statistics would not have seemed to them worth the effort.

Socialism vitalizes, animates, gives meaning and purpose to statistics. It does this by attributing a magical quality to them. They are to be the means by which economies are to be planned, controlled, and all efforts are to be concerted. It would probably be possible to calculate with some precision the extent of the spread of socialism in a country, especially of gradualist socialism, by the degree to which statistics are kept and used. In short, the widespread use of statistics is a phenomenon of socialism.

Statistics are an abstraction of some aspect of *history*. They tell us the barest minimum about something or other that happened in the past—yesterday, ten days ago, a year ago, a hundred years ago, and so on backward. (They are, it might be said, history reduced to the idiot level, with all the juices wrung out, with everything that made history vital left out.)

Statistics and Prediction

The magical quality which socialists—which is to say, most of those who use them, whether they are aware of it or not—attribute to them is that they are a prediction of the future. One encounters evidence for such a belief all the time. For example, the newspapers report that an electric power company has gone before a state public utilities commission with a request for

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$289,000,926 annual increase in its annual revenues, say. Almost as if it were incidental, they also report that the request was for a rate hike. Now it is quite conceivable that the company might get the rate hike requested and actually experience a decline in revenues. Indeed, since the demand for electricity is elastic, it is predictable, other things being equal, that any substantial increase in rates will result in a decrease in consumption, either relatively or absolutely. In fact, statistics are not a prediction of the future; they are a desiccated record of some aspect of the past.

The only way to predict the future with any accuracy is to control it, to remove from people as individuals the means by which they can manage their own affairs and change the course of things. That is, of course, what socialists intend and attempt to do. Marx claimed to have discerned the course of the future with scientific accuracy. It was a bogus claim. Twentieth century socialists are trying to use the power of government to make his predictions come true.

A Tool for Planners

Statistics can be used in planning with some degree of success in a controlled situation. Barring some catastrophic occurrence, it is possible to predict how many classrooms will be needed in the United States for first graders next year if we know how many five-year olds there are at present. What makes this statistic a useful basis for prediction, however, is positive law and long established custom. Most states have compulsory attendance laws, and the usual, and, in many states, the required, school entering age is sometime during the sixth year of a child. It is possible to predict where the classrooms will be needed with reasonable accuracy if children are required to attend the school in their district and a recent survey has revealed how many children there are. The fewer the variables—if there are no private schools, if the population is immobile, if no parental discretion is permitted—the more accurate the outcome of the prediction based on statistics.

In theory, perfect planning would be possible if the population was under the complete control of a single power (and all acts of God would cease, which communists have tried to achieve by denying God and naturalists by denying that He performs any acts). The thrust of socialism is toward that complete control over men by depriving them of choices by which they might thwart the planners. The effort to use statistics as a means to control the future pushes us toward reducing individual man to a statistic. Specifically, it manifests itself as the tendency to reduce man to a number.

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Calculation Impossible

Under pure socialism, Mises said, economic calculation would be impossible. But under pure socialism not only economic calculation but all calculation would be redundant, hence irrelevant and unnecessary. Calculation is useful only because things are independent of us and do not necessarily conform to our will. I count my sheep, or would if I had any, because one or more may have strayed or been stolen, or a new one might have been born during the night, or for whatever reason they are independent of my will.

Under pure socialism, statistics would be a command that would be perfectly fulfilled, not a sum arrived at after the fact. Soviet communists have half-way pretended they could do this for decades now. Their statistics are a compound of commands, wishful thinking, and the determination to deceive those who examine them. Expert Sovietologists have long found it necessary either to make their own calculations or to make drastic reductions in those reported by Soviet authorities. Clever workers in the Soviet Union can sometimes fill or surpass their quotas—statistical commands—by having more than one worker count the same product as his own.

Pending the arrival of *pure* socialism—an event which is at worst several eons away, by my reckoning—socialists do find it useful to engage in calculation. Indeed, gradualists compile statistics with greater passion than saints stored up virtue in ages past. They calculate gross national products, consumer price indices, wholesale price indices, the number who are unemployed, the number of empty hospital beds, the size of the public debt, the amount of private indebtedness, the number of people who suffer from the common cold and how many days work are lost as well, and may, for aught I know, compute the average daily discomfiture occasioned for victims of hangnails. With all these masses of statistics in hand, they sally forth to "fine tune" the economy and enact programs that their statistics tell them will assure that in the future just the right amount of whatever is needed will be available.

The verdict is not yet in as to whether those who consulted chicken entrails to divine the future had greater success than users of statistics, but it would not surprise me to learn that the Department of Health, Education and Welfare has commissioned a study on just that subject, a statistical study, no doubt.

Assaulting the Individual

Even though calculation is still going on, indeed more of it than there ever has been before, under the impetus of socialism numbers are increasingly being used for

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another purpose. As noted earlier, the primary function of numbers is for use in calculation. That may well be their only legitimate use, since all other uses tend to perversions, as in gaming, magic, and superstitious practices. The use of numbers to identify things is innocent enough so long as the maker or owner of the object assigns the number. But even the assignment of numbers to things is suspect when anyone other than the owner assigns the number, for it is a usurpation of the prerogatives of ownership.

But the assignment of a number to an individual—which is the significant change being fostered by socialism—is more than suspect; it is a subtle and symbolic assault on the person. It has an unsavory past and portends ill for the future. It is a device for bringing people under control of the number assigners. The movement toward reducing individuals to numbers is grist for the mills of socialism. It arose in the wake of socialism, reduces the human to the level of a statistic, and instruments him for the kind of control entailed in command statistics.

Individuality is an obstacle to collectivism. Everything that distinguishes one individual from another, all differences in personality, any uniqueness, any peculiarity, any rough edges, all these hinder the meshing of the individual with the group, the organization, the class, the mass, the society, and finally the state. The concerting of all effort requires that individuality be sublimated, subordinated, or nullified. Numbers are the right instrument for this.

What's in a Name?

The sign and symbol of individuality is a person's name. It has been said that the most pleasing sound in the world to a person is that of his own name. There is good reason for this. It stands for his personality, his individuality, his uniqueness, all that he has done and become. He who loves and respects himself must in some fashion love his name, even when he does not like it as a name when considered objectively. Religious ceremonies sometimes give public sanction to the sacramental character of the name. In Christianity, this is often done by linking naming with baptism. An individual's status as a distinct being is conferred upon him socially by his name.

Naming of persons and animals is a prerogative of parents, possessors, or trustees. In the case of minor children and animals a change in trustee or owner may result in a change of name. In the United States, at least, when a child becomes an adult he may by initiating the appropriate action change his name. The assigning of numbers to objects is historically the preroga-

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tive of the originator, maker, or owner. (Some objects are also given names sometimes, such as boats, homesteads, and, on occasion, automobiles. This is apt to be more playful than not, but it is an assertion of ownership in any case.)

Naming is a means of assigning distinctness and individuality. Numbering is a device for distinguishing objects that are very nearly alike from one another. He who names or numbers either explicitly or tacitly asserts his claim to that which is named or numbered. In short, individuality and ownership are deeply entangled in naming and numbering, spiritually, culturally, and legally.

It is within this context that we should view the increasing tendency to assign numbers to persons. There is yet another context within which it should be viewed, its grisly historical antecedents. (The end toward which an action tends is often implicit in its beginnings.) In earlier times, criminals were often branded. The brand was an identification and warning, a mark of degradation, and, in view of the custom of branding animals, an emblem of ownership by the state. The assigning of numbers to prisoners was a lineal descendant of branding, a change accompanying or following upon the shift from corporal punishment of criminals to imprisonment as a usual punishment.

Numbers for Prisoners

The numbering of prisoners was the first ostentatious use of numbers in connection with persons in the United States. The number was prominently displayed sometimes in public places on "wanted" posters. This assigning of a number may have had some slight residual use for identification, but that is not its significance. It is the stamp of the state on the prisoner, the modern equivalent of branding. It is the emblem that he is no longer his own man but belongs to the state. A prisoner is stripped at the outset of much which sets him apart as an individual: his possessions, his clothing, his standing in the community, and many of his legal rights. The number is the seal of his new status.

Aleksandr Solzhenitsyn, with his special insight and sensitivity, has suggested more of the import of assigning numbers to prisoners. He says that they did not get around to assigning numbers to political prisoners until late in the Stalinist era, long after it was generally done for all prisoners in some "civilized" countries. Here is an abbreviation of his account:

> Then again, they quite blatantly borrowed from the Nazis a practice which had proved valuable to them—the substitution of a number for the prisoner's name, his "I," his human individuality, so that the difference between one man

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and another was a digit more or less in an otherwise identical row of figures. . . .

Warders were ordered to address prisoners by their numbers only, and ignore and forget their names. It would have been pretty unpleasant if they could have kept it up—but they couldn't. . . .

In work rolls, too, it was the rule to write numbers before names. Why before and not instead of names? They were afraid to give up names altogether! However you look at it, a name is a reliable handle, a man is pegged to his name forever, whereas a number is blown away at a puff. If only the numbers were branded or picked out on the man himself, that would be something! But they never got around to it. . . .[3]

There came a time after the death of Stalin when the authorities no longer required the use of the numbers. Alexander Dolgun has described with what alacrity the prisoners ripped off their numbers and flung them into the air. "This seems like a small matter," he said, "but for all the prisoners of Dzhezhazgan the number was the prime symbol of our slavery, of our demotion from human being to object. Its disappearance was like the beginning of a fresh new day."[4]

Those who have suffered greatly often see with remarkable clarity. According to legend, Dolgun was one of only a very few who have survived the duration and degree of torture he underwent. We might suppose that he would have found the wearing of a number of such insignificance as to be unworthy of mention. Not so, his conclusion goes to the very heart of the matter; the number was a symbol "of our demotion from human being to object," of the demotion of individual man from a value in and of himself to an object of use by others. The number is the Sign of the Beast of the idea that has the world in its grip.

Military Numbering

A goodly number of Americans were assigned numbers for the first time as members of the armed forces. Whatever value these serial numbers may have had for identifying mangled bodies, they also served a highly important symbolic purpose. The modern armed forces have brought organization to its peak of efficiency in doing that for which it is best suited, namely exerting force and destroying. To accomplish these ends, the military attempts to blend the individual into the organization in such a way that he becomes at one with it. Close order drill, for example, has for its object making the individual act in concert with the group. "The unit," in the argot of the armed forces, is the organization to which he belongs, not the individual. Uniformity, obedience and conformity are prime military values. The individuality connoted by names is an obstacle; whereas, a number connotes none of that. There is the matter, too, that one's name is

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assigned by parents, and the number signalizes a new authority and control over him.

The generality of Americans were assigned numbers for the first time in the 1930's when to have a Social Security number became a requirement for employment in many occupations. The significance of this numbering was partially concealed by the beneficent claims made for the undertaking, by the fact that it applied initially mainly to industrial workers, by the fact that it was called "insurance," and by the casualness with which numbers were issued. Too, the number was to identify one's "contribution" to the Social Security "fund." Who could object to that? After all, one's "contribution" certainly should be identified in some way.

It turned out, of course, that it was not a contribution at all; it is a tax, as the courts have decided. Nor is it insurance, in most ways that word is used. No policies have ever been issued. Monies paid into Social Security no longer belong to the individual. He no longer has any claim on them; they are forfeit to the government. The only claim he has is to such benefits as Congress may decide from time to time are to go to those who fall in the category to which his payments and financial condition entitle him. The only management, control, and possession he will ever have over any of this, as matters stand, is over such benefit payments as he may receive. Even the Social Security "fund" is a paper obligation resting on the credit of the United States.

The Number Is Essential

It may be objected at this point that I am making too much of numbers, that what is important is what is being done, not some incidental device by which it is done. On the contrary, I maintain that the opposite is the case. The number is essential; the particular thing that is done with it is only incidental. First of all, consider this fact, all that is left of all the money I have paid into Social Security is my number. If the money were essential and the number incidental, I should have the money and the number should have disappeared.

But one should not rest a case on what may only be a clever twisting of words. Even so, I would like to go one step farther along this line. Suppose that instead of having a Social Security number that my name only were used to identify my "contribution" to the "fund." What could I say then? All that I have left of all that I have paid is my name? Assuredly not, for I would have my name whether or not I had paid my Social Security tax (plus a prisoner's number if I had not paid it, no doubt). That reveals the use of the number—a device for asserting a

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distinct claim—, but not its ultimate purpose.

The purpose of the number is gradually becoming clearer with the passage of time, and new legislation. Not only is the percentage of the Social Security tax being increased, not very gradually of late, either, and the coverage extended over the years, but also the number is being used in new ways. The Social Security number has now become a Taxpayer Identification number. By this extension, the government has begun to use a number to assert its control and potential ownership of all our income and resources.

A Case in Sweden

The Internal Revenue Service considers only so much of an individual's income as his as he can show does not belong to the government. True, the government does not ordinarily take it all, but that is simply an incident of the legal establishment of class rate categories and exemptions. What can happen was lately demonstrated in Sweden. Ingmar Bergman, the famous film maker, left the country after the government insisted that he pay taxes which he claimed amounted to 139 per cent of his income. His decision was reached after the following had occurred. He was called out of a rehearsal by government investigators who hauled him away for questioning, confiscated his passport and accused him of evading $120,000 in income taxes. Bergman protested his innocence, but even after the criminal charges were dropped, Swedish officials continued to dun him for the back taxes they insisted he owed. Bergman went to pieces; he stopped work, suffered a nervous breakdown and contemplated suicide. Then . . ., having snapped out of the depression, the 58-year old director announced he was leaving his homeland for good.

Not before declaring, however, "I am leaving my fortune in Sweden at the disposal of the National Tax Board."[5]

The idea that has the world in its grip presses governments toward taking away the independence of the individuals, toward taking away the means by which they might manage their own affairs, toward concerting their efforts by fitting them into organizations. It is the assigning of a number that is essential, not Social Security. Social Security is incidental; it is only one of the possible means by which government takes from the individual the control over his affairs. There are many other ways it can be and is done. The number, however, is essential; it is that to which the individual must be reduced in order to be instrumented by government. His name belongs to the individual; but the number signalizes the government's claim on him.

The animus of collectivism is to

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reduce individual man to a number, then. It is to reduce him to the lowest common denominator, to a one which he shares with all other living human bodies. Only thus can he be melded with the masses of other men. This process of enmassment is the opposite of what occurs in the refinement of metals. In this latter process purification takes place; the best that is in the metals is separated from the dross and preserved.

Enmassment

The enmassing of man that occurs with collectivism may be likened to "enslagment," or the formation of clinkers in a furnace when certain kinds of coal are burned. Clinkers result from a melding together of the impurities in the fuel. The best that is in man is his potentiality for originating, for reason, for spirituality, for building, for love and concern. The enmassment of collectivism suppresses these by giving the weight of numbers to the lowest and worst that is in man: his irrational urges, his desire to dominate, his envy, his will to put down that which he cannot appreciate or understand, his opposition to what is different, and his bent to destruction. The clinkers produced by collectivism smother the flame, just as clinkers in a furnace will a fire.

The weight of numbers is a fearful thing for individual man. Only very strong and sturdy men can stand for long against them in whatever way they are arrayed against him. Numbers have imperiled the individual in all ages. It has remained for our age to sanctify them. (Greece and Rome empowered the masses in the period of decline but fell short of sanctifying them, I believe.) We sanctify this weight of numbers by calling it democracy and claiming that it would be desirable to infuse all of life with its methods. Labor unions are empowered by government to use the weight of their numbers against individuals who desire to work. But the weight of numbers intrudes into every realm today: suppressing, restraining, and limiting man.

Counting the Votes

The actual political process becomes a means of subjugating the individual under the impetus of collectivism. Democratic socialism turns voting into a kind of self-immolation by which the individual yields up his independence and control over his own affairs by casting a ballot. He reduces himself to an anonymous number and becomes a statistic. Man's potential weight in his own and in public affairs is largely reduced to a scratch on a ballot or, more appropriately, the turn of a wheel in a machine.

In the framework of the idea that has the world in its grip the only issue that is supposed to arise is over

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what means shall be used to concert all efforts to promote the general well-being. Not only does the individual reduce himself to a number by voting but also to a statistic in favor of one method of being concerted as opposed to another, if any issue at all can be discerned. The man who wishes to manage his own affairs is unlikely to find that among the available options.

Actually, voting for candidates may be a reasonably satisfactory means of determining *who* shall govern, so long as the demonstrably corrupt and unlettered are excluded. It is hardly the way to decide *what* government shall do, however, and that is the question which gradualism continually intrudes into the process. That is a constitutional question requiring for its answer not man reduced to a number but man in the full weight of his being as an individual.

Moreover, socialism turns voting into the quest for the holy grail. It turns the mundane business of selecting who shall govern into the choosing of religious leaders who are assumed to be competent to manage the transformation of man and society. So long as a choice of candidates remains, voting is important, of course. It does restrain politicians to know that they will have to stand for election, nor can power ever be absolute so long as its exercise can be modified by decisions of the electorate. But for those who do not accept the religious vision of socialism, voting is a game of chance, with the odds arranged heavily against them.

Rendered Meaningless

The ultimate reduction of man is not to a number. Even when that number is only one, it still has a fixed quality about it which resists manipulation and control. The ultimate reduction of man is to a meaningless number. Communists have discovered a way to do this in their "democratic process."

Elections in the Soviet Union, for example, are meaningless affairs, so far as the participants are concerned. A Party slate has been nominated by the leaders, and it *will* be elected. It does not matter whether one hundred, one thousand, or one million vote: the result will be the same. Even so, a great effort is made to get out the vote. Pressure is brought to bear on selected individuals to go from door to door urging others to vote. Why? For one thing, as earlier noted, there is the facade of democracy which has propaganda uses. But it serves a highly important interior purpose as well. The individual is not only reduced to a number which can be rendered as a statistic but also to a meaningless number and statistic. The absolute and arbitrary power of the rulers over the populace is demonstrated.

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By coming forth to vote they apparently acquiesce both in their own meaninglessness and the power of the rulers. The more who vote, the more complete the demonstration of power.

The subjugation of the individual descends to degradation under communism. ⊕

Next: 32. *Restoration of the Individual.*

—FOOTNOTES—

[1]See Ludwig von Mises, *Socialism* (London: Jonathan Cape, 1951), pp. 135-37.

[2]Murray N. Rothbard, *Man, Economy, and State* (Los Angeles: Nash Publishing, 1970), p. 828.

[3]*The Gulag Archipelago*, III (New York: Harper & Row, 1978), pp. 58-60.

[4]Alexander Dolgun, *An American in the Gulag* (New York: Ballantine Books, 1975), p. 374.

[5]"Utopia's Dark Side," *Newsweek* (May 3, 1976), p. 38.

IDEAS ON LIBERTY

What Price Socialism?

A society is socialized by extending, centralizing and accelerating the exercise of political power. Socialists may speak of controlled production as their method of operation, but production cannot be controlled except by controlling people. If men as producers are to be controlled, it means that they will be told what jobs they are to work at, where they will work, and how long they will work. This sort of political tyranny is inherent in a socialized society. It is a denial of man's inherent right to be free.

No human society has been completely free; some men have always sought, and occasionally have obtained, a politically privileged position for themselves at the expense of other people. But until recently, all well disposed men sought to remedy social ills by working for a society in which every man has the right to plan his own life in any peaceful way his conscience allows. This human aspiration has been reversed in the thinking of socialists who talk in terms of a planned economy. In an economy planned politically there is no room for individuals to make their own plans; their lives are planned for them, which means that they are not free to run their own affairs.

ADMIRAL BEN MOREELL

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HIGHER LEARNING

RUSSELL KIRK is dedicated to a proposition that doesn't sit well in a democracy, that not everybody is "college material." He has been our most trenchant critic of the big "multiversity" that he satirizes as Behemoth U., where they give academic credits for fly-fishing, home economics, pop culture and other "gut" courses and frivolities, and he has not spared the smaller establishment that he calls Brummagem U. or Dismal Swamp A. and M. He thinks we have been pouring billions into a system that encourages four years of relative idleness for a majority, while the few serious students do the best they can to read an occasional book while the rock music pours forth its incessant cacophony.

There are ironies here, for I have heard Russell Kirk lecture at a big southern state university (Troy, in Alabama) and at a small college (Hillsdale), and the rapt attention he has received in both places is a tribute to hungry sheep who insist, on occasion, on being fed. Not all is lost when colleges compete to give Kirk a platform. But Mr. Kirk is dealing in trends, and his *Decadence and Renewal in the Higher Learning: an Episodic History of American University and College Since 1953* (South Bend: Gateway Editions, 354 pp., $15.00) paints a lugubrious picture that has its undeniable broadscale truth.

Mr. Kirk takes 1953 as our watershed year in education. Before that the cost of an education to individual families imposed a limiting factor on the growth of Behemoth U. But with the G.I. Bill of Rights encouraging thousands of military veterans to enroll in our colleges and universities, the idea was

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spread abroad that the higher education was everybody's birthright. With easy loans available to almost anybody, and with tax money sluiced from Washington, D.C., to scores of institutions that were willing to risk federal supervision of the curriculum, gigantism became the order of the day. To accommodate students who had no real inclination to work, the elective system introduced by Charles Eliot at Harvard was expanded to include all manner of fads and foibles. It was "cafeteria style." All sense of integration and order of knowledge was abandoned; the colleges became purposeless centers of mere socialization and sociability. And the student at Behemoth U. became an IBM number.

Mitigating Factors

To give the colleges their due, they were not entirely to blame for the mess they made of trying to accommodate the millions. Our grade school and high school education had already been enfeebled by "look-say" methods of teaching reading, which meant that the typical freshman entered college without the literacy needed to handle abstractions. Perforce, the colleges had to do the work the high schools had neglected. With "remedial" courses eating up the undergraduate's time, the chances for studying at a college level were obviously diminished.

The purposelessness of a system that had forgotten that wisdom and virtue had once been the ends of education happened to coincide with the decay of religion and the loss of belief in family authority. Returning in 1959 to Michigan State University, where he had once taught, Mr. Kirk was appalled by the random utilitarianism of his university president. The university catalogue contained forty-four courses in hotel and restaurant management. There were 163 courses in home economics, and 106 in sociology and social work. Among the offerings in the College of Education were "Personnel Work in Residence Halls" and "Square Dance and Square Dancing." There was one small department: Religion, with a mere twenty-four courses.

Massive subsidies of the universities and colleges came with the Lyndon Johnson era. The subsidies reinforced the inhumane scale of Behemoth U. Rioting and cheating, says Mr. Kirk, were "the ineluctable consequences" of a depersonalized campus. And then came the impact of a purposeless war. With affluent students uneasy in their consciences about being exempted from the draft, the ideologues found it easy to convert the Lonely Crowd on the campus into a mob.

Mr. Kirk confesses to a sneaking sympathy for the rebels who revolted at what was being inflicted on

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them in the name of education. Their classes were boring. "Why," asks Mr. Kirk, "shouldn't students have their action at Behemoth State U. . . . It would get them out of those boring classes for a week." The student demand for "relevance" in their courses was not, according to Mr. Kirk, entirely misplaced. What was misplaced was the theory, uncritically accepted on the campus, that history was an irrelevant subject.

Signs of Improvement

Since the early Seventies there has been some improvement on the campus. The craze for drugs has abated. The abolition of the military draft removed the guilt feelings about using a college sanctuary to remain aloof from the national crisis. With college enrollments diminishing, there is less pressure on booster presidents to cry for more brick-and-mortar expansion. And with less assurance that jobs will be waiting for them when they finish college, students have become more serious. But Behemoth U. is still with us—and Mr. Kirk insists that it is "beyond reformation."

In a few chapters on "conceivable renewal," Mr. Kirk addresses himself to the problem of by-passing the partisans of the "multiversity." The small liberal arts college is capable of being saved. The big controlled multiversities may be beyond easy redemption, but an experiment started at the University of California at Santa Cruz in 1965 is promising. Santa Cruz consists of several small colleges that receive from two hundred and fifty to one thousand students each. Every college has its own brand of study—humane letters, the arts, natural science. Most students reside in their own colleges, along with some of the professors. The scale is humane, the opportunity for a fruitful leisure is there.

Mr. Kirk also finds much to commend in the group of small colleges that has grown up in Claremont, California. The five autonomous institutions in the "Claremont group" are Pomona, Scripps, Claremont Men's, Harvey Mudd and Pitzer. Each keeps its own identity—one is a co-educational liberal arts college, another emphasizes social studies, and another specializes in preparation for leadership in government and business. Yet they share a common library.

Mr. Kirk hopes to see more of the Claremont and Santa Cruz type of decentralization. He is also hopeful that the curriculum in the liberal arts colleges can be simplified. We need fewer subjects, he says, and these should be taught thoroughly and well. Three courses a term are enough. The college year might profitably be limited to six months, after the Scottish fashion, with time for independent reading and travel.

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Even Behemoth U. might be saved to some extent if the honors course idea, limited to top grade students, were to be accepted. As for the Great Books concept, Mr. Kirk endorses it in principle, though he differs with the particular list of great books that Robert Hutchins and Mortimer Adler picked as the core of the curriculum for St. John's College. Mr. Kirk likes in particular what Thomas Aquinas College in California does with the St. John's idea. ⊕

BEFORE THE SABBATH
by Eric Hoffer
(Harper & Row Publishers, 10 E. 53rd Street, New York, N.Y. 10022)
144 pages ■ $7.95 cloth

Reviewed by Allan C. Brownfeld

ERIC HOFFER has long been an eloquent defender of freedom and of the free market.

Now retired from his work as a San Francisco longshoreman he has some striking things to say about communism and capitalism, about America, and against "intellectuals."

Hoffer notes that, "Lenin and Stalin between them liquidated at least sixty million Russians in order to build factories and dams. America welcomed thirty million immigrants to help build factories and dams. Capitalism is fueled by the individual's appetites, ambitions, fears, hopes and illusions. Communism forces people to hate what they love and love what they hate. Imagine a country of land-hungry peasants forced to renounce ownership of land. Imagine a system that frowns on friendship, free association and individual enterprise. It is no wonder that after sixty years the Russian Communist party must still coerce, suspect and minutely regulate the Russian people."

The intellectuals' dislike of capitalism, Hoffer points out, is based upon the fact that in capitalist societies, they are not in charge: the people set the agenda. "Communism was invented by highbrows," he writes, "while capitalism was initiated by lowbrows."

Hoffer refuses to apologize for the extraordinary affluence our free market has produced and shared with the world. "It is an outrage," he declares, "that with so much arable land Latin America and Russia should have to import grain. No one dares shame the representatives of these countries for their criminal interference with the productive capacity of their people. It is getting more and more difficult to see why this country should have any obligation toward the economically mismanaged parts of the world. It would be fitting if the American represen-

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tatives at the United Nations held up to public scorn the creators of hunger."

The lament by Third World countries over a supposed "maldistribution" of wealth is rebuffed by Hoffer, who charges that such an opinion ignores the fact that wealth is produced only through great effort. "Not a word is said about how wealth comes into being; the toil, sweat and self-denial which make an accumulation of wealth possible. This is how a once poor and backward Japan became an affluent country. It is curious how in both domestic and international affairs there is a stubborn refusal to see a connection between effort and income. It is widely assumed that individuals or countries are poor because they are exploited or discriminated against."

The root of many of the world's evils, Hoffer believes, is the ideologue's view that heaven can, in fact, be created on earth. Partisans of this view, "did not know what happens when dedicated idealists come to power; did not know the intimate linkage between idealists and policemen, between being your brother's keeper and being his jailkeeper. It is disconcerting that present-day young who did not know Stalin and Hitler are displaying the old naivete. After all that has happened they still do not know that you cannot build utopia without terror, and that before long terror is all that's left."

For himself, Hoffer writes, "I cannot see myself living in a socialist society. My passion is to be left alone and only a capitalist society does so. Capitalism is ideally equipped for mastering things but awkward in mastering men. It hugs the assumption that people will perform tolerably well when left to themselves. The curious thing is that the reluctance or inability to manage men makes capitalist society uniquely modern. Managing men is a primitive thing. It partakes of magic and is the domain of medicine men and tribal chieftains. Socialist and Communist societies are a throwback to the primitive in their passion for managing men."

Hoffer, now in his seventies, is the son of immigrants. He has had a life-long love affair with America. "America," he states, "is the worst place for alibis. Sooner or later the most solid alibi begins to sound hollow. . . . To come to America is to be reborn, to start with a clear slate. Here you are your own creator and your own ancestor." Only those who hate freedom, he declares, hate America. ⊕

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